

Canada Infrastructure Bank Zero Emission Bus Financing

RECOMMENDATION(S):

The Executive Committee recommend that Council:

1. Give first reading to Bylaw 8B2022, authorizing The City of Calgary (“The City”) to incur indebtedness with the Canada Infrastructure Bank to receive a non-revolving, amortizing term credit facility in the amount of up to \$168 million to purchase up to 259 Zero Emission Buses; and
2. Direct Administration to report back to Executive Committee prior to signing definitive agreements with the Canada Infrastructure Bank, with a comprehensive technical and financial report communicating Program details and seeking necessary remaining approvals.

HIGHLIGHTS

- An opportunity exists to leverage both federal grant and loan funding for the majority of the costs of incorporating zero emission bus (“ZEB”) technologies into Calgary Transit’s existing fleet and the supporting charging infrastructure (the “Program”).
- The Program will pursue funding with the potential of \$223 million in grants and \$168 million through a credit facility (Attachment 1). The move towards zero emissions means that operating costs for diesel fleet in the past will now cover the financing cost of transitioning to a sustainable fleet (i.e., interest and principal repayment will be covered through savings from not operating a diesel fleet).
- With this pursuit, the Canada Infrastructure Bank and The City have signed a Memorandum of Understanding (MOU) to partner on the due diligence of financing the Zero Emission Buses.
- Administration has proposed initiating the Bylaw Approval Process (MGA Sections 187, 251, 273, 606) set out in the *Municipal Government Act* (“MGA”), to align with the completion of due diligence with the Canada Infrastructure Bank.
- **Why does this matter?** The proposed Bylaw 8B2022 authorizes The City to incur indebtedness of up to \$168 million, a condition of The City signing definitive agreements with the Canada Infrastructure Bank. The Canada Infrastructure Bank provides The City with a flexible source of long-term financing at below-market interest rates to facilitate investments in transit and infrastructure to help accomplish The City’s climate goals.
- Administration will return to Council prior to signing definitive agreements with the Canada Infrastructure Bank, with a comprehensive technical and financial report on the outcome of due diligence to seek approval of the remaining recommendations to execute definitive agreements with the Canada Infrastructure Bank for the Program.
- If definitive agreements are not signed on or around January 1, 2023, Canada Infrastructure Bank reserves the right to adjust the below-market interest rate currently being offered to reflect prevailing Government of Canada interest rates. By proceeding now with the borrowing bylaw, there is an opportunity to achieve better Program economics through securing a more desirable interest rate.
- **What does this mean to Calgarians?** The Program contributes to The City’s Climate Resilience Strategy by enabling sustainable transportation and land use and by introducing initiatives to improve the environmental performance of public transit service

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delivery. This Program will reduce greenhouse gas emissions, allow for cleaner commutes and improve the quality of life for Calgarians.

- Strategic Alignment to Council's Citizen Priorities: A healthy and green city
- Bus Electrification Background is included as Attachment 1. The proposed Bylaw is included in Attachment 2.

DISCUSSION

In the RouteAhead 2021 Annual Update to Council on 2022 February 15 (IP2022-0122), the Canada Infrastructure Bank was identified as a potential financing source for the purchase of ZEBs. Shortly thereafter, and as a part of the grant application process for the Zero Emission Transit Fund (Attachment 1), the Program was screened as a potential candidate for financing from the Canada Infrastructure Bank.

A due diligence process is underway with the Canada Infrastructure Bank to substantially agree on the key technical variables and assumptions that feed into the cost savings regime established by the Canada Infrastructure Bank's program. Administration is requesting Council begin the bylaw process to align with the completion of due diligence and a condition required upon signing definitive agreements. If Administration cannot obtain the necessary approvals or reach a definitive agreement, there is the potential of interest rates increasing, resulting in less desirable financing for the Program.

The Canada Infrastructure Bank financing will provide The City with a flexible source of long-term liquidity at significantly below-market interest rates to fund ZEBs. This credit facility acts as a non-revolving line of credit that is only used as amounts are drawn over time. The financing is intended to cover the higher upfront capital cost of ZEBs versus traditional diesel buses. Repayments to the Canada Infrastructure Bank credit facility are sourced from the actual savings generated by the lower cost of operating ZEBs as compared to the higher cost of operating diesel buses.

Approving this bylaw authorizes The City to borrow for the purchase of up to 259 ZEBs in years 2023-2026. Municipalities may borrow from other traditional lending institutions such as a bank or credit union or through government funded lending organizations; however, the Canada Infrastructure Bank has the ability to offer a below market interest rate with preferential terms. This is favourable when compared to market rates and terms for conventional borrowing arrangements.

The credit facility of up to \$168 million will be determined through an agreed upon financial model, which forecasts savings from the operation of a ZEBs when compared to a conventional greenhouse gas emitting diesel bus. ZEBs are anticipated to be less costly to maintain and operate with lower fuel costs on an on-going basis over the life of the buses when compared to conventional diesel buses. These operating budget savings are the funding source for loan repayments.

While The City may have up to \$168 million available to utilize for the purchase of up to 259 ZEBs per the borrowing bylaw, the initiative itself is scalable. If, for whatever reason, The City was to buy fewer buses, then the amount associated with that purchase would determine the total Canada Infrastructure Bank credit facility amount. The borrowing will not be made until

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definitive agreements are signed and final Program and capital budget approval, which is anticipated to be in 2023.

STAKEHOLDER ENGAGEMENT AND COMMUNICATION (EXTERNAL)

- Public Engagement was undertaken
- Public Communication or Engagement was not required
- Public/Stakeholders were informed
- Stakeholder dialogue/relations were undertaken

Public communication and engagement was not required as part of this Council report, however through the Bylaw Approval Process set out in the MGA, Bylaw 8B2022 will be included in a public hearing and receive three readings by Council. The borrowing bylaw must be advertised at least once per week for two consecutive weeks prior to second reading. A 15 day petition period prior to second and third reading must be accommodated to allow for petitions from the public requiring a vote of electors on whether the proposed bylaw should be passed or not. Following three readings by Council, the bylaw will be considered valid if no application has been made to the Court of King's Bench to have the bylaw declared invalid within 30 days of the bylaw being passed.

IMPLICATIONS

A discussion on the implications of this initiative will be included in the comprehensive financial and technical report, which will be brought back to Executive Committee prior to signing definitive agreements with the Canada Infrastructure Bank. In the event the Program is approved, the following implications will arise:

Social

The Program provides citizens the opportunity to access cleaner commutes and improves the quality of life for Calgarians.

Environmental

The Program contributes to The City of Calgary's Climate Resilience Strategy by enabling sustainable transportation and land use. The Program also allows for incorporating ZEB technologies into Calgary Transit's existing fleet, thereby reducing greenhouse gas emissions and protecting air quality.

Economic

The Program promotes fiscal responsibility by providing The City with a flexible source of long-term financing at a significantly below-market interest rate.

Service and Financial Implications

No anticipated financial impact

There is no financial impact to approving the proposed bylaw. The credit facility associated with the proposed borrowing bylaw, if drawn upon, will impact The City's total debt. A detailed program budget and analysis of the financial implications of the initiative will be included in the

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comprehensive financial and technical report, which will be brought back to Executive Committee prior to signing definitive agreements with the Canada Infrastructure Bank. The credit facility will not be drawn upon until definitive agreements are signed and final Program and capital budget approval, which is anticipated to be in 2023.

RISK

Risks associated with implementing the Program will be expanded on in the comprehensive financial and technical report to Executive Committee prior to executing definitive agreements with the Canada Infrastructure Bank. However, there are a few considerations to be communicated related to the approval of the borrowing bylaw:

1. **Risk:** The \$168 million loan value is a projected maximum amount in the non-binding term sheet between the Canada Infrastructure Bank and The City, based on indicative assumptions from all parties, including The City's third-party technical advisor.
Mitigation: This value may be revised and further defined during due diligence upon review and input of assumptions from all parties.
2. **Risk:** If signing definitive agreements does not occur on or around January 1, 2023, the Canada Infrastructure Bank reserves the right to adjust the significantly below-market interest rate currently being offered to reflect prevailing Government of Canada interest rates. A higher interest rate may result in a more expensive Program causing less financing to be available to purchase ZEBs, slowing Program progress and the ability to undertake The City's climate goals.
Mitigation: To secure the preferred interest rate, Administration and the Canada Infrastructure Bank have been working together to try and expediate the due diligence to close on or around January 1, 2023, in conjunction with the borrowing bylaw process.
3. **Risk:** There are still a number of prerequisite conditions that need to be met prior to executing definitive agreements including, but not limited to, capital budget appropriation for the Program, a delegation of authority to execute all required agreements and authorization to establish a reserve based on credit agreement conditions.
Mitigation: These conditions will be recommended and sought for approval in the comprehensive technical and financial report to Executive Committee prior to signing definitive agreements, or when needed to proceed with the Program.
4. **Risk:** If The City is unable to secure the other sources of grant and loan funding, the Program and The City's ability to achieve its climate objectives could be impacted.
Mitigation: The City is actively pursuing innovative forms of funding and financing throughout the due diligence process of the Program.

ATTACHMENT(S)

1. Bus Electrification Background
2. Proposed Borrowing Bylaw 8B2022

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
David Duckworth	City Manager's Office	Inform

**Corporate Planning and Financial Services Report to
Executive Committee
2022 October 18**

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EC2022-1159
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Doug Morgan	Operational Services	Approve
Les Tochor	Corporate Planning & Financial Services	Approve
Sharon Fleming	Operational Services	Approve