



**City of Kingston
Information Report to Council
Report Number 18-228**

To:	Mayor and Members of Council
From:	Desirée Kennedy, Chief Financial Officer and City Treasurer
Resource Staff:	None
Date of Meeting:	August 7, 2018
Subject:	Funding Impacts – Cancellation of Provincial Cap and Trade Program

Executive Summary:

The Provincial Cap and Trade Regulation came into force on July 1, 2016 in support of a program to tackle climate change by capping the amount of greenhouse gas emissions businesses could emit, establishing a process for trading of emission allowances and investing carbon market proceeds into projects that would reduce greenhouse gas pollution. The City was successful in obtaining funding from this program for City initiatives related to active transportation, energy related efficiencies at the new fleet maintenance garage, electric vehicle incentives and social housing retrofits.

Effective July 3, 2018, the newly elected provincial government cancelled the Cap and Trade Program and prohibited all trading of emission allowances. The purpose of this report is to provide Council with a status report on the project funding at risk as a result of the cancellation of the program. Staff has been notified that approved City funding of more than \$6.5M has been cancelled as part of the Cap and Trade Program termination. An additional grant application approved by Council for \$1.7M was not submitted as the Cap and Trade Program was terminated prior to the submission deadline.

Recommendation:

This report is for information purposes only.

Authorizing Signatures:

ORIGINAL SIGNED BY CHIEF FINANCIAL OFFICER AND CITY TREASURER

**Desirée Kennedy, Chief Financial Officer and
City Treasurer**

ORIGINAL SIGNED BY CHIEF ADMINISTRATIVE OFFICER

Gerard Hunt, Chief Administrative Officer

Consultation with the following Members of the Corporate Management Team:

Lanie Hurdle, Commissioner, Community Services

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Jim Keech, President & CEO, Utilities Kingston

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Denis Leger, Commissioner, Corporate & Emergency Services

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Options/Discussion:

The Cap and Trade Program, Ontario Regulation 144/16 made under the *Climate Change Mitigation and Low-Carbon Economy Act, 2016, S.O. 2016, c.7* was a key initiative for the Ontario government to tackle climate change by capping the amount of greenhouse gas emissions businesses could emit, establishing a process for trading of emission allowances and investing carbon market proceeds into projects that would reduce greenhouse gas pollution. The Cap and Trade Regulation came into force on July 1, 2016 and was projected to generate about \$1.9 billion per year in proceeds to be spent on initiatives that would cut greenhouse gases, including investments in public transit, clean technology and energy related efficiencies for homes and businesses.

Effective July 3, 2018, the newly elected provincial government cancelled the Cap and Trade Program and prohibited all trading of emission allowances. The purpose of this report is to provide Council with a status report regarding project funding at risk as a result of the cancellation of the Cap and Trade Program.

The City of Kingston applied for and was successful in obtaining a portion of the Province's committed funding for greenhouse gas reduction for City projects related to active transportation, energy related efficiencies at the new fleet maintenance garage and the Division Street Municipal Campus, electric vehicle incentives and social housing retrofits. Due to the cancellation of the Cap and Trade Program, the City has been notified that funding allocations for these projects have been cancelled. The information below provides an update on the status of the projects and the effects of the loss of provincial funding.

Active Transportation - Ontario Municipal Commuter Cycling Program

In 2017, the Province of Ontario announced an active transportation funding opportunity through the Ontario Municipal Commuter Cycling Program (OMCC). The purpose of the OMCC Program was to provide annual dedicated funding to municipalities to support the implementation of commuter cycling infrastructure in order to encourage people to cycle for daily commuting or other frequent trips. Through the OMCC Program, the City was awarded \$1.33M for the 2017 OMCC program year. Announced as a four-year program, it was projected that the City would receive an additional \$1.33M per year for years 2 to 4.

Given that the OMCC was funded through cap and trade proceeds, the Ministry of Transportation provided written notification to the City on July 4, 2018 that OMCC funding has been cancelled and no further funding will be issued.

The Ministry advised that the City may continue to use any OMCC funding that was received prior to March 31, 2018 to implement the projects identified in the Transfer Payment Agreement. The City has received its \$1.33M of funding for the 2017 program year prior to this date and will therefore be able to retain and spend this allotment of funds in accordance with the terms and conditions laid out in the Transfer Payment Agreement. However, capital plans will need to be revised to remove expected future OMCC funding of \$1.33M per year for three years.

Municipal GHG Challenge Fund:

The Municipal GHG Challenge Fund was a granting program designed to support community-led action on climate change. The competitive, application-based program was funded by proceeds from the CAP and Trade Program with funding of up to 100% of the eligible costs available for greenhouse gas (GHG) emission reduction projects proposed by municipalities.

Fleet Maintenance Garage

Council recently approved a Fleet Maintenance Facility project for the Division Street Municipal Campus (701 and 705 Division Street). Under the Round One of the Municipal GHG Challenge Fund application process, this project had been awarded a grant in the amount of \$1,750,000 for campus-wide geothermal and rooftop solar PV systems and other premium energy efficiency measures, retrofits and recommissioning. City staff was recently notified that, due to the termination of the Cap and Trade Program, funds will no longer be available through the Municipal GHG Challenge Fund.

The Ministry of the Environment, Conservation and Parks (MOECP) has requested the City to provide a wind-down proposal by August 1, 2018 that outlines any wind-down costs that have been incurred as a result of the cancellation of the funding. The Proposal must include any reasonable, identifiable wind-down costs that clearly relate to the project and the cancellation of funding. Upon the Ministry's review and consideration of the Proposal, the Province, at its sole discretion, may provide a component of wind-down funding. At the time of writing this report, staff was reviewing potential costs that could be considered for inclusion in the wind-down proposal including any consultant design services work completed to date and any additional costs required to wind-down and cancel the related scope of work.

As a result of the funding cancellation, staff undertook a value-engineering exercise to determine potential scope reductions that would minimize the impact on the GHG reduction target and keep the project within the approved net capital budget envelope. Based on a comprehensive payback analysis, staff has reviewed the components of GHG reduction measures. As a result, the rooftop solar PV arrays on the new fleet maintenance garage and the Kingston Police headquarters will proceed. The geothermal system, rooftop solar on the other campus buildings and retrofits and recommissioning of the existing buildings will not proceed at this time. With these changes, the project can be completed within the approved net capital budget, while continuing to take positive steps to reduce net energy usage and greenhouse gas impact. The measures that have been eliminated from the project scope could be considered at a later date subject to the appropriate cost-benefit analysis.

The site servicing phase of this project is ongoing and was not impacted by the termination announcement.

Kingston East Community Centre and Electric Transit Bus

Under Round Two of the Municipal GHG Challenge, Council had approved the submission of a grant application in the amount of \$600K for the incorporation of a geothermal system and

rooftop solar photovoltaic (PV) installation as part of the construction of the Kingston East Community Centre and \$1,067,500 for the purchase of one 60-foot fully-electric, long-range articulated transit bus and supporting hoist system. However, because the provincial government's cancellation of the Cap and Trade Program was prior to the application deadline of July 13, 2018, the application under Round Two of the Municipal GHG Challenge was not submitted.

Electric Vehicle Incentives:

In October 2017, Council approved the Kingston Electric Vehicle (EV) Strategy. The strategy has three main target areas:

1. Electrification of Municipal Fleet;
2. Support Community Adoption and Use of EVs; and
3. Support Municipal Employee Use of EVs.

The provincial funding changes brought about from the cancellation of the Cap and Trade Program impact each of the three target areas as follows:

Electrification of Municipal Fleet

The Province's cancellation of electric vehicle purchase incentives (up to \$14,000 per vehicle) will directly impact this target area. Since October 2017, the City has acquired four fully electric vehicles and has one plug-in hybrid vehicle on order, as fleet replacements. The City is eligible to receive total funding of \$70,000, under the Electric and Hydrogen Vehicle Incentive Program, for these vehicle purchases and has already received payment in the amount of \$28,000 for the first two vehicle purchases. Staff anticipates that funding will be received for the remaining three vehicle purchases.

There are no further pending EV purchases for the municipal fleet at present, but the cost evaluations made as part of future purchases will no longer benefit from the now cancelled incentive program.

Support Community Adoption and Use of EV's and Municipal Employee Use of EVs

Staff expects that the cancellation of the incentives will indirectly impact these two target areas by slowing down what was a promising rate of growth in sales of electric vehicles in Ontario. According to Waterloo-based FleetCarma, EV sales in Canada in 2017 increased 68% over 2016 numbers, with an increase of 120% in Ontario alone.

Additionally, target area 3, "Support Municipal Employee Use of EVs" will be impacted by the cancellation of the Province's Workplace Electric Vehicle Charging Incentive Program (WEVCIP). This program provided up to 80% of the cost to purchase and install EV chargers at workplaces for employee use. The program was funded through Cap and Trade proceeds and has been cancelled by the Ministry of Transportation. At the time of the cancellation, the City was on the waiting list for a potential grant of up to \$172,500 to purchase and install 23

employee charging stations across a number of City workplaces. The City has not spent any funds to date on this initiative and staff has no immediate plans to purchase and install employee charging stations.

Social Housing Retrofits:

The cancellation of Ontario's Cap and Trade Program has impacted the City of Kingston's social housing programming as follows:

Social Housing Apartment Improvement Program (SHAIP)

In 2017, as part of the Ontario's Climate Change Action Plan, the Ministry of Housing (MHO) announced SHAIP funding for eligible high-rise apartment buildings across Ontario. The program funding was set for four years based on carbon market proceeds of the provincial Cap and Trade Program and would have supported retrofits for social housing apartment buildings of 100+ units.

Service Managers were invited to submit an Expression of Interest (EOI) to MHO to secure program funding and City staff were able to secure \$736,054 in SHAIP funding from 2018-2021 which would have been used to fund a program to maximize energy efficiency by replacing windows and patio doors at the sole eligible property in the City's housing portfolio at 381 Bagot Street, a 104-unit apartment building managed by Kingston & Frontenac Housing Corporation (KFHC).

The City received notification on July 9, 2018 from the Ministry of Municipal Affairs and Housing that SHAIP had been cancelled due to the termination of the Cap and Trade Program, effectively ending the project for KFHC. As the project was only in the tendering phase and a transfer payment agreement was not fully executed between the City and the Province, no funds have been exchanged between any of the parties involved and no wind down costs are expected.

Social Housing GreenON Program (GreenON)

Set to be funded through proceeds from the Province's Cap and Trade Program, the Green Ontario Fund was a not-for-profit provincial agency tasked with reducing greenhouse gas pollution in buildings and industry while helping Ontarians save money on energy costs.

On February 9, 2018, under the Green Ontario Fund, the GreenON Program was announced, to provide funding for eligible social housing apartment buildings across Ontario. The program, which was being administered by Housing Services Corporation (HSC), would have invested funds to support greenhouse gas reduction retrofits in social housing apartment buildings with less than 100 units across the Province.

Service Managers were invited to submit an expression of interest to HSC to secure program funding and City staff were able to secure \$100,000 in GreenON funding for 2018. This funding was to have been used to fund a program to maximize energy efficiencies by replacing in-wall air conditioning units at 298 Guthrie Drive, a 28 unit apartment building managed by Lois Miller Cooperative Homes.

The City received notification on July 13, 2018 from HSC that the GreenON program will be terminated effective August 13, 2018 due to the cancellation of the Province's Cap and Trade Program, effectively ending the project for Lois Miller Cooperative Homes. Although a Transfer Payment Agreement was fully executed between the City and HSC, no funds have been exchanged between any parties and no wind-down costs are expected. However, City staff expended considerable time and effort to undertake the planning and implementation of this program, and therefore a request has been made to HSC to be reimbursed for a percentage of the administrative costs.

Existing Policy/By Law:

Kingston Climate Action Plan

Kingston Electric Vehicle (EV) Strategy

2015 Kingston Transportation Master Plan

Notice Provisions:

There are no notice requirements for this report.

Accessibility Considerations:

There are no accessibility considerations for this report.

Financial Considerations:

15-year capital plans are currently under review as part of the 2019 budget development process. Capital plans will be revised to remove any funding that has been cancelled as a result of the cancellation of the Provincial Cap and Trade Program. Respective projects will be reviewed and may be prioritized for future allocation of municipal funds.

Contacts:

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Other City of Kingston Staff Consulted:

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Debra Krakow, Project Manager, Facilities Management & Construction Services

Exhibits Attached:

There are no exhibits attached.