

Committee of the Whole (2) Report

DATE: Tuesday, June 16, 2020

WARD(S): ALL

TITLE: REQUEST TO CAPITALIZE A HOME ENERGY RETROFIT PROJECT

FROM:

Bill Kiru, Acting Deputy City Manager, Planning and Growth Management

ACTION: DECISION

Purpose

To seek Council endorsement to capitalize the proposed home energy retrofit project. Council support of financing for the home energy retrofit project provides an important prerequisite to submit an application to the Community Efficiency Financing initiative, a program of the Green Municipal Funds under the Federation of Canadian Municipalities (FCM).

Report Highlights

- The Local Improvement Charges Study and Council endorsement of the staff report of April 21, 2020 places the City of Vaughan in an excellent position to apply to the first intake of the Community Efficiency Financing initiative
- The support to capitalize the home energy retrofit project has no financial risk as it is only triggered if the City is successful in an application to the Community Efficiency Financing initiative and is re-paid by homeowners through the Local Improvement Charge
- The first intake of the Community Efficiency Financing initiative has a generous grant provision that is up to 50% of the requested loan amount and the grant amount can be used to cover most or all of the program management and administrative costs

Recommendations

1. That Council support a contribution amount of 20% of the total program costs, up to \$2 million based on initial program estimates, to capitalize the home energy retrofit program; and
2. That Staff provide a report to Council with a specific amount to be requested from debentures, to be coordinated by York Region, or from City reserves, to fulfill this contribution amount upon a successful award from the Green Municipal Funds through the Community Efficiency Financing initiative.

Background

The Community Efficiency Financing (CEF) initiative was established by FCM to support energy retrofits in private buildings using tools such as Local Improvement Charges (LIC) financing. The first intake of the Community Efficiency Financing (CEF) initiative, a program of the Green Municipal Fund (GMF), has a generous grant portion that is up to 50% of the loan amount being requested in an application. Other GMF programs allow a grant amount of up to 15%. For the home energy retrofit project, the loan requested from the CEF initiative can be made available as financing to homeowners and paid back through the LIC mechanism, essentially as a recoverable debt, while the requested grant amount can pay for many of the program's management and administrative costs.

The City is in an excellent position to apply for the first intake of the CEF initiative

The City was provided with more information about the Community Efficiency Financing initiative following the April 21, 2020 report to Council. Staff were also able to discuss aspects of the funding program with FCM on May 1, 2020.

FCM staff provided a preliminary opinion that the City meets many of the prerequisites for the first intake of the CEF initiative. This report addresses one specific application requirement, excerpted below, that was not addressed in the staff report of April 21, 2020:

A municipal council resolution or attestation from the city manager describing your organizational commitment to capitalize or recapitalize the proposed program, as well as your support for this GMF application.

A successful application by Vaughan can assist in growing the retrofit program across other lower tier municipalities

Region staff note that the City of Vaughan and Town of Newmarket are the current lower tier municipalities in a position to take advantage of the first intake of the CEF initiative. The Region and other lower-tier municipalities are interested in participating in a steering committee or advisory group to ensure knowledge transfer and capacity building to facilitate other municipalities to apply in future intakes of the CEF initiative. In addition, City staff are coordinating the program design and application with the consortium established by the Association of Municipalities of Ontario (AMO), the Independent Electricity System Operator (IESO), the Clean Air Partnership (CAP) and the City of Toronto. This allows the maximization of innovation, partnerships, capacity building and the testing of the concierge model to assist homeowners in taking advantage of the home energy retrofit program.

FCM staff recommend designing a four-year program as the CEF initiative allows a semi-annual drawdown of the loan amount to reduce up front interest costs on the borrowed financing. City Staff have considered the suggestion from FCM in the estimate of total program costs and the 20% City contribution in the Recommendation in this staff report. The staff report of April 21, 2020 noted a possible two-year project as a launch of the program, rather than a four-year program.

Debentures are an eligible source for LIC-financed energy efficiency measures

Ontario Regulation (O. Reg.) 586/06, the local improvement charges regulation, was amended by O. Reg. 322/12 to include “constructing energy efficiency works or renewable energy works” within the definition of a capital work. To further ensure that that the normal range of sources of financing for municipalities can be used for energy retrofits in private buildings, the regulation provides that:

“Where a municipality undertakes a private work as a local improvement, this Regulation applies to undertaking the private work as a local improvement as if the municipality were undertaking its own work. O. Reg. 322/12”

The Clean Air Partnership obtained a legal opinion from Aird and Berlis LLP in 2013 on the use of LIC financing for energy and efficiency retrofits in private buildings. Aird and Berlis LLP provided the following on the matter of sources of financing for the LIC-based energy retrofit program:

“The works can be funded from municipal budgets (operating and/or capital) or from municipal reserves (and reserve funds if available). Municipalities can also consider options for financing of private LIC works that are repayable beyond the current year's budget.”

Dunsky Energy Consulting also provided support for the research undertaken by the Clean Air Partnership to plan for an LIC-based home energy retrofit program. They provided the following interpretation regarding use of municipal debt to support LIC financing programs.

“Ontario municipalities are somewhat limited in the types and amount of debt that they can incur. It is, however, common for municipalities to use long-term debt to finance capital projects. There are also restrictions on the conditions under which municipalities can incur debt. Research on the legal implications of LIC financing was completed simultaneously with the development of the program’s design; it was found that there are no specific legal barriers to using municipal debt to support LIC financing programs.”

Previous Reports/Authority

Council endorsed a [home energy retrofit program using the Local Improvement Charges financing tool](#) on April 21, 2020, supported by a main study report, a municipal LIC toolkit including draft forms and a draft implementing by-law, and a business case.

The City of Vaughan endorsed a [Climate Emergency Declaration](#) (Communication #23 to Report No. 20) at the Committee of the Whole meeting on June 4, 2019, which includes an action to complete the study of the use of local improvement charges to accelerate home energy retrofits.

Analysis and Options

Most of the capital for a home energy retrofit program comprises the financing made available to homeowners and then recovered through payments using the LIC mechanism. This capital can include the loan amount requested through the CEF initiative together with debentures, such as coordinated by the Region, or City reserves. Costs to administer the program, including marketing and potential incentives to homeowners to improve uptake, make up a smaller part of the total project costs and can be offset by the grant amount requested through the CEF initiative.

The City must contribute a minimum 20% of total project costs

While the City is currently evaluating program designs for the home energy retrofit program, it is likely that the City contribution of a minimum 20% of total project costs will comprise mostly financing using reserves or debentures, with a small amount of in-kind time from existing staff. The capital commitment requested in this staff report can be provided through a request to the Region to coordinate debenture financing upon

hearing about a successful loan and grant award under the CEF initiative. The loan amount taken on by the City to capitalize the program, whether a CEF loan or debentures, is paid back by homeowners using the LIC charge. It is essentially a recoverable debt.

There is no financial risk to the City

The City will seek a loan amount from FCM for the additional available financing for homeowners. The City will request a grant amount, up to 50% of the requested loan amount, to pay for program management and administrative aspects of the home energy retrofit program such as the concierge service to homeowners, marketing, cost recovery for selected staff, and potential financial incentives to homeowners to increase the demand for the program.

The City's contribution of a minimum 20% of total project costs is triggered if the application to the CEF initiative is successful. If the City is not successful, then the discussions with the Consortium will continue to prepare for the third intake of the CEF initiative.

The City will need to be satisfied on the aspects of the disbursement of funds under the CEF initiative, in advance of submitting a final application, to further reduce the risk of implementing a home energy retrofit program. Issues to resolve with FCM staff include:

- the typical term and interest rate of the loan amount available from FCM
- whether the term of the FCM loan can match the term of the LIC-financed loan to homeowners (e.g., 10 years)
- how the grant funding is disbursed over the project duration (e.g., 2 to 4 years)
- an ability to terminate or modify the agreement with FCM if homeowner uptake is low without a financial penalty to the City

Financial Impact

Staff is seeking Council authorization to take the next step to launch a home energy retrofit program to capitalize the home energy retrofit project in an amount up to \$2 million. This will comprise part or all of the City's 20% contribution to the total project costs in accordance with the requirements of the CEF initiative. Pending a successful application to the CEF initiative, staff will provide a report to Council requesting a specific amount from debentures, to be coordinated by the Region, or from City reserves, to cover the costs of the City's financial commitment.

Project performance measures will be identified by the City in preparation of making a final application to the Community Efficiency Financing initiative. The performance

measures should gauge the success of the program and be used to determine the conditions to continue the program. The current program design aims to have 200 homeowners apply for LIC financing. Performance measures to track success of the program may include:

- interest in the retrofit program tracked in comparison to marketing initiatives (e.g., number of inquiries)
- number of homeowners applying to the retrofit program, taking into consideration that interest is likely to ramp up over time (e.g., number of initial applications measured quarterly or monthly)
- number of homeowners proceeding to undertake an energy audit
- average cost of retrofits and number of eligible retrofit measures being pursued by applicants in comparison to age of the dwelling
- number of homeowners proceeding to sign a property owner agreement

Broader Regional Impacts/Considerations

The staff effort to design the home energy retrofit program is being undertaken in collaboration with the Consortium of the Association of Municipalities of Ontario (AMO), the Independent Electricity Supply Officer (IESO), the Clean Air Partnership (CAP) and the City of Toronto. The Consortium is established to act as a Third Party to administer a home energy retrofit program across multiple municipalities. This is a mutually beneficial arrangement that can assist the City in a successful application to the first intake of the Community Efficiency Financing (CEF) initiative and improve the likelihood of a successful application by the Consortium for the third intake of the CEF initiative.

Conclusion

The first intake of the Community Efficiency Financing initiative has a generous grant provision that is up to 50% of the requested loan amount and requires that the lead applicant contribute a minimum 20% of total project costs. Council support to finance the home energy retrofit program provides an important prerequisite to submit an application for the first intake of the Community Efficiency Financing initiative.

Upon notification of a successful application under the Community Efficiency Financing initiative, City Staff will provide a report to a future meeting of Council to verify the City's contribution to the total project costs for the launch of the home energy retrofit program. The financing mechanism (e.g., reserves or debentures coordinated by the Region) will also be confirmed at that time.

The Local Improvement Charges (LIC) study, including a draft implementing LIC by-law, was endorsed by Council on April 21, 2020 and serves to meet many of the additional

prerequisites in the Community Efficiency Financing initiative.

For more information, please contact: Tony Iacobelli, Acting Director, Policy Planning and Environmental Sustainability, ext. 8630.

Attachments

1. N/A

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