

Staff Report



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| To | Committee of the Whole |
| Service Area | Infrastructure, Development and Enterprise Services |
| Date | Monday, February 7, 2022 |
| Subject | Property Assessed Clean Energy Update - 2022-27 |

Recommendation

1. That staff be directed to finalize the funding opportunity including a loan of up to \$10 million and a grant of up to \$5 million for a residential Property Assessed Clean Energy program with Federation of Canadian Municipalities through the Community Efficiency Funding of the Green Municipal Fund.
2. That staff be directed to develop, implement, and administer a Property Assessed Clean Energy program and that delegated authority be provided to both the Deputy Chief Administrative Officer, Infrastructure Development Enterprise and Deputy Chief Administrative Officer, Corporate Services to enter into and execute any required agreements and staffing contracts for such implementation.
3. That the City's financial contribution to the Property Assessed Clean Energy program of up to \$3.5 million be funded from the 100 Renewable Energy Reserve Fund and that this funding obligation be incorporated into future City budgets or apportioned from other funding opportunities.
4. That Appendix A of the General Reserve and Reserve Fund Policy be amended to reflect the creation of a Property Assessed Clean Energy Reserve Fund with the terms and authority as identified in the Property Assessed Clean Energy Update dated February 7, 2022.
5. That staff be directed to draft the appropriate by-laws required for a Property Assessed Clean Energy program and bring those forward to a future Council meeting for approval.

Executive Summary

Purpose of Report

To provide information and ask for Council direction on moving forward with a City-developed and administered Property Assessed Clean Energy (PACE) retrofit loan program utilizing Local Improvement Charges (LIC) as a mechanism to collect loan amounts through a funding opportunity from the Federation of Canadian

Municipalities (FCM) through the Community Efficiency Funding (CEF) of the Green Municipal Fund (GMF).

Key Findings

In 2012, Ontario regulations were passed to permit Ontario municipalities to recover the costs of undertaking work for constructing energy efficiency works or renewable energy works on private property and impose a LIC by agreement. Since that time, one municipality in Ontario (the City of Toronto) has implemented a PACE program and one additional (the City of Ottawa) released a program late in 2021.

As the Municipal Act, 2001 and LIC Regulations only apply to Ontario municipalities, with the exception of Toronto, the legislation and PACE programs in other jurisdictions across Canada and the United States, while of interest, do not set precedent for the City of Guelph. City staff noted early in the process that there may be efficiencies to having a third-party such as Our Energy Guelph (OEG) to administer a PACE program. However, this option is not feasible because if a third-party provides the capital for and administers the PACE program, the City cannot rely on nor use the provisions of the LIC legislation which is a critical component to the success of the program.

In November 2021 FCM approved an opportunity, through the GMF, for the City of Guelph to receive a loan of up to \$10 million and a corresponding grant of up to \$5 million for the implementation, operation, and funding for a residential PACE program. This funding opportunity from FCM aligns with the City's Strategic Plan, Guelph. Future Ready. Specifically, there is alignment with direction under the Official Plan, the Community Energy Initiative as well as Race to Zero.

While the PACE program framework details are still in development, the program will fit within the prescribed legislation. It is expected that a City-administered PACE program will provide opportunities for community partners to assist in the program marketing, concierge service, and conversations within the community related to the opportunities and benefits of the program.

Proceeding with a PACE program will require financial contribution from the City. FCM funding will cover up to 80% of the program funding; thus, the City must contribute up to \$3.75 million in funding directly or by the way of in-kind services. To facilitate the City contribution, staff are recommending setting up a Reserve Fund with the terms and authority as identified in this report and that up to \$3.5 million of this amount be funded from the 100 Renewable Energy (100RE) Reserve Fund. This Reserve Fund currently does not have available funds. Staff are seeking that the approval for additional funding to balance the reserve fund be identified through future City budgets or through other funding opportunities that may arise. The balance of the commitment of \$250,000 will be provided through in-kind services and programs.

The commitment by the City of Guelph to administer, report and collect owing loan amounts will extend over 30 years. Multiple dedicated staff resources will be required including a Program Manager responsible for PACE program design and implementation and two finance resources to assist in the program development, administration, reporting and collection of funds. These new City staff positions to administer the program will be funded through the FCM grant for the initial four

years. However, there is a need to keep resourcing for this program throughout its entire 30-year lifespan and this will fall to the municipal tax base. In addition to the core positions, this program will also require additional staff time and resources related to drafting by-laws, agreements, additional building inspection work as well as Council approval of associated by-laws.

There are several current programs from other levels of government and utility providers that directly target energy efficiency and energy conservation. The Canada Greener Homes Grant (CGHG), Interest-free Loans for Retrofits, Home Efficiency Rebate (HER), Energy Affordability Program (EAP), Save on Energy Retrofit Program and the Canada Mortgage and Housing Corporation (CMHC) Green Home are programs that could be accessed by Guelph property owners. A key component of a successful Guelph PACE program will be to ensure the ability to stack and compliment these other programs otherwise the uptake may not materialize as intended.

Financial Implications

This program will require the City to borrow up to \$10 million from FCM, flow these funds to residential properties, and then collect through an LIC. This loan was not considered in the City's most recent debt forecast as part of the 2022/23 Budget and may create constraints in terms of future borrowing capacity related to the City capital program. This additional \$10 million of debt will not cause the City to breach its debt capacity limits as set out in the Debt Management Policy at this time based on planned projects, however, it may be looked upon negatively by the credit rating agency due to its unplanned nature. The LIC mechanism is critical to the City's risk mitigation of this debt obligation and its repayment of the funding source over time.

As the City's Debt Management Policy limits the issuance of long-term debt only for the purpose of large capital projects, Council will also be approving a loan arrangement that was not contemplated within the City's current policy. Given the community benefit that can be gained by the City administering this loan as a flow-through agent, secured with the LIC, and the aggregate debt total fitting within the policy, staff are comfortable with recommending this loan agreement outside of the current policy.

Report

In 2012, Ontario regulations were passed to permit the Ontario municipalities to recover the costs of undertaking work for constructing energy efficiency works or renewable energy works on private property, and to impose local improvement charges by agreement on that property to recover the cost of that work. A LIC can be used as a secure collection method if the program is run by the City. Repayment of loans extended for approved energy efficiency improvements are collected as property taxes and is the fundamental structure of a PACE program. Since the introduction of the new regulations in Ontario, only the City of Toronto had implemented a program to make use of the new LIC mechanism. However, in late 2021 the City of Ottawa announced that a new program is available, funded through FCM. There are several other municipalities across Canada with PACE programs in place, and there are currently a few other Ontario municipalities in the planning stages for a program.

Guelph is governed by the Municipal Act, 2001, and LIC regulations which apply to all Ontario municipalities other than Toronto. Every province has enacted its own statutes and regulations to govern its own municipalities. In the United States there are various types of legislation from state to state. These laws are all different and as such, it is important to ensure any PACE program in Guelph aligns with legislation applicable to Guelph, Ontario.

Under the typical PACE-type plan, a municipality would administer and run the program internally, as is the case in Toronto. Guelph noted early in the process that there may be efficiencies to having a third-party such as OEG run and administer the PACE program.

OEG and the City have been working in partnership to determine the best format for a PACE or Energy Efficiency Retrofit (EER) program. Through reviewing proposed business structures related to the PACE program, it was determined that if a third-party provides the capital for the loans and an alternate third party is an administrator of the PACE program, the City cannot use the provisions of the LIC legislation.

In November 2021, FCM awarded the City of Guelph, through the GMF, an opportunity for a loan of up to \$10 million and a corresponding grant of up to \$5 million for the implementation, operation, and funding for a residential PACE program. Additionally, preferred terms are available from FCM to ensure that the program can be successful and compete with or complement any energy efficiency program from other levels of government or industry partners.

This funding opportunity from FCM for the City of Guelph to develop a PACE program aligns with the Sustaining Our Future pillar of the City's Strategic Plan, Guelph. Future ready. Specifically, there is alignment with direction under the Official Plan, the Community Energy Initiative as well as Race to Zero, to help move the Guelph community toward Net Zero Carbon by 2050 or sooner. Additionally, a PACE program could be viewed as moving economic activity forward through or past the COVID-19 pandemic.

While the PACE program framework details are still to be fully developed, it is understood that the program will fit within the prescribed legislation. It is expected that a fully City-administered PACE program will provide opportunities for community partners to assist in the program marketing, concierge service, and conversations within the community related to the opportunities and benefits of the program.

The FCM funding is available for a four-year period to facilitate uptake to the program, after which it includes up to a 25-year payback period. Depending on the duration of the LIC loan period, this will commit the City of Guelph to administration, reporting and collecting past the year 2050. In addition to the core positions outlined below, this program will also require additional staff time and resources related to drafting by-laws, agreements and other documents, and additional building inspection work as well as Council approval of associated by-laws.

In addition to the long-term commitment of administering the program, there are a number of other considerations, foremost being the City's financial contribution. FCM funding will only cover up to 80% of the program funding. As this contribution

may amount to up to \$15 million, the City would then be required to contribute up to \$3.75 million in funding directly or through existing programs such as water conservation or in-kind services.

To facilitate the City contribution, staff are recommending setting up a Property Assessed Clean Energy Reserve Fund (#362) with the terms and authority as identified below and that up to \$3.5 million be funded from the 100RE Reserve Fund (#355) with the remaining \$250,000 being provided through in-kind staffing and other programs. The 100RE Reserve Fund does not have available funds for this program and staff are seeking approval for up to \$3.5 million to be incorporated into future budgets or through other funding opportunities as required based on program uptake.

Multiple dedicated staff resources will be required including a Program Manager responsible for PACE program design and implementation, and two finance resources to assist in the program development, administration, reporting and collection of funds. FCM has been working on collaborating with municipalities across the country to compile best practice program documents and many municipalities are eager to share what they have done to date. This collaboration would assist the PACE Program Manager with the City of Guelph program development. These new positions would be funded through the FCM grant for the initial four years, after which staff resourcing for the tax collection and reporting, as well as ongoing communication, would be the responsibility of the City tax base.

Once the program is developed to the satisfaction of FCM, the funding agreement can be entered into between the City and FCM, and the enabling PACE LIC by-laws brought to Council for approval. Concurrently during this time, the City would work with community partners to establish supporting roles, responsibilities and opportunities related to this PACE program.

Of note, there are several current programs from other levels of government, industry partners and utility providers that directly target energy efficiency and can be accessed by property owners in Guelph. The CGHG, Interest-free Loans for Retrofits, HER, EAP, Save on Energy Retrofit Program and the CMHC Green Home are the programs that can be accessed by Guelph property owners directly without any obligation or involvement of the City. Further review and analysis of these programs will be necessary to determine if these can complement or be stacked with a City of Guelph PACE program to meet the needs and requirements of the property owners in Guelph. Please see Attachment-1 for further details on EER programs.

Financial Implications

This program will require the City to borrow up to \$10 million from FCM and flow these funds to residential properties through an LIC, locking the City into additional debt for a period of twenty-five years. This loan was not considered in the City's most recent [debt forecast](#) as part of the 2022/23 Budget and may create constraints in terms of future borrowing capacity related to the City capital programs. This additional \$10 million of debt will not cause the City to breach its debt capacity limits as set out in the [Debt Management Policy](#), however it may be looked upon negatively by the credit rating agency due to its unplanned nature. The LIC mechanism is critical to the City's risk mitigation of this debt obligation and its repayment funding source over time. Further consideration to debt capacity

calculation methodology will be given once discussions with counterparts and the credit rating agency can be had.

The staff resourcing during the startup and 4-year program period will be recoverable through the grant portion from FCM. Resources required beyond this initial period for the tax collection, reporting, and ongoing communication will be the responsibility of the tax base until past 2050.

As the City's Debt Management Policy limits the issuance of long-term debt only for the purpose of large capital projects, Council will also be approving a loan arrangement that was not contemplated within the City's current policy. Given the community benefit that can be gained by the City administering this loan as a flow-through agent, secured with the LIC, and the aggregate debt total fitting within the policy, staff are comfortable with recommending this loan agreement outside of current policy.

The creation of a new Reserve Fund is governed by the [General Reserve and Reserve Fund Policy](#). Staff are seeking approval for terms and authority for this Reserve Fund through an amendment of Appendix A of that policy as follows:

Reserve Name: Property Assessed Clean Energy Reserve Fund

Purpose: To record and track the proceeds of the funding received from all parties for the PACE program.

Target Balance: No established maximum. Reserve balance must be positive.

Source of Funds: Granting agency and other partner contributions (including municipal) for the PACE program.

Use of Funds: Extending energy efficiency retrofit loans in accordance with the approved PACE program as well as program related costs.

Authority/Timing: City Treasurer approval of in-year transfers in accordance with the pre-approved purpose/use. Where possible, operating cost transfers approved by Council as part of budget.

Consultations

Federation of Canadian Municipalities

Our Energy Guelph

Strategic Plan Alignment

Efforts to mitigate climate change by reducing Guelph's carbon footprint is aligned with the Sustaining our Future Strategic Plan pillar. This can be achieved, in part, by reducing the City's energy footprint through residential retrofits enabled by supporting environmental innovation and programming through aligning with partners

Attachments

Attachment-1 Energy Efficiency Programs

Attachment-2 Staff Presentation

Departmental Approval

Facilities & Energy Management
Legal, Realty and Court Services

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