

# Council Memo



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To	<b>City Council</b>
Service Area	Infrastructure, Development and Enterprise Services
Date	Monday, February 28, 2022
Subject	<b>Clarity on Property Assessed Clean Energy Costing Model</b>

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During the discussion of report 2022-27 Property Assessed Clean Energy Update, questions were raised by Council in relation to the terms of the Federation of Canadian Municipalities (FCM) grant and the allowable cost recovery mechanisms related to the City's required 20% contribution. Staff met with FCM representatives subsequent to the February 7, 2022 Committee of the Whole discussion, which has provided additional clarity of the costing model.

The Property Assessed Clean Energy (PACE) program will provide loans to residential property owners to do home energy retrofits. The FCM Community Efficiency Financing funding program will provide up to \$15 million (made up of \$10 million loan and \$5 million grant - 50% of loan amount) to implement a residential PACE program in Guelph. The City is required to contribute 20% of the overall program, up to \$3.75 million. This will provide a total pool of financing of \$18.75 million for the PACE program, the majority of which will be loaned to residential property owners for household energy-related capital improvements. A portion of this funding will be used towards program start up, implementation, management, administration, marketing, and other related program costs.

## **City 20% Financial Contribution**

Staff have approached the City's commitment in two pieces; an in-kind contribution of \$250,000, and a dedicated financial contribution of \$3.5 million as proposed in motion three of the staff report:

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.

The motion as proposed would assign \$3.5 million to the PACE program, understanding that most of this amount will be loaned to property owners and repaid to the City over the term of the PACE Local Improvement Charges (LIC) loan over the next 25 years. For this reason, it is not appropriate to recover this amount through a user fee on the program. In the current model, up to \$3.5 million would be dedicated to the PACE program, and as the PACE LIC loans were repaid, they will become available for investment in future community energy related programs (i.e., a revolving loan fund for future tranches of community energy retrofit programs for not only the residential sector, but also for industrial, commercial,

institutional or multi residential). Given Council's policy direction on adopting the Race to Zero targets, staff believe this recommendation is consistent with the goals of that policy and providing financial resources towards those goals. A PACE program enables 8 of the 25 action items as outlined in [Guelph's Pathway to Net Zero Carbon](#), presented to Council in May 2019 necessary to eliminate community greenhouse gas.

Staff would monitor program uptake and be able to incorporate the final allocation into future budgets which would be up to \$3.5 million. There are other opportunities to build this funding commitment including allocation of year-end surpluses, one-time dividends from the City's wholly owned subsidiaries or other proceeds from transactions that may give rise to one-time funding.

### **Administrative Costs**

As indicated in the staff report, there are also administrative costs required for this program, including staffing and program costs. Staff have currently proposed that these costs would be funded through the proceeds of the FCM grant in the first 4 years, wherever possible. There will be some portion of program costs in the first 4 years not eligible for the FCM grant funding and these would be funded from the City's \$3.5 million financial contribution. The ongoing loan collection and grant reporting costs of the program would be the responsibility of the property tax funded budget after the first 4 years, extending through an estimated 25-year period.

Some members of Council indicated their desire to direct staff to recover all administrative costs for the duration of the program through a user fee (either a one-time fee or through an annual charge throughout the program). The draft motion to achieve the inclusion of a user fee into the PACE program development would be as follows:

That staff be directed to review and implement the appropriate competitive user fee to be applied to recover City administrative costs not funded through the FCM grant for the PACE program.

Based on this motion, using the best information available at the time of program development, staff would estimate the total administrative cost including non-eligible program costs and the staff resources extending beyond the FCM grant period to calculate an administrative fee. This would be done using an average costing methodology with the intention of a full cost recovery model; however, given the long period of time, full cost recovery cannot be guaranteed. Further, competitiveness of the program is a priority to ensure the benefits of the program can be realized and staff need to be provided flexibility to ensure the user fee is not prohibitive. Any variance resulting over time would stay within the PACE program either funded from the program capital or used to offset program costs.

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