Low(er) Carbon Building Financing Options for Ontario Municipalities

March 7th, 2018

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Today's presenters

Clean Air Partnership

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Presentation Layout

- What are we trying to do and why?
- The LIC Amendment
- CHEERIO Products
- On-Bill Financing
- Green Bonds
- Q&A

Q. Has your municipality considered developing a building energy efficiency retrofit program?

Why Bother?

- Municipal and community leaders want to promote deep energy upgrades to private buildings to meet provincial and municipal GHG reduction targets (i.e. 80% by 2050), reduce private energy costs, and enhance the local economic development opportunities.

- Building energy use accounts for at least 20% (provincial); 40% in a number of GTA municipalities and over 50% in the City of Toronto.

- Energy Retrofits in the building sector present some of the lowest cost energy efficiency opportunities in our communities. Plus they have significant benefits for reducing vulnerability to energy price increases and economic development opportunities and improved air quality.

The Rationale

- Energy use in buildings are a considerable cost to citizens annually (for example, $4.5bn in Toronto, or $1720 per person per year) $12.5 billion in the GTHA

- The vast majority of energy spending does not stay in the municipality (80% of Toronto's energy spending leaves the city, draining $3.5bn from the local economy annually, $1338 per person per year)

The Barriers

- Deep retrofits are needed to address the issues of concern – these have longer paybacks (10 – 15 years)

- Many residents sell their homes in shorter cycles (5 – 8 years) and don’t want to pay to lower the bills of subsequent owners

The Solution

Groups like the Pembina Institute, David Suzuki Foundation and others promoted use of Local Improvement Charges to overcome these barriers, based on experience in other jurisdictions. Also referred to as Property Assessed Clean Energy (PACE), or Property Assessed Payments for Energy Retrofits (PAPER)

The Amendment

In October 2012, the Ontario Ministry of Municipal Affairs and Housing authorized Ontario Regulations 322/12 and 323/12, amending O.Regs. 586/06 and 596/06 under the Municipal Act, 2001 and the City of Toronto Act, 2006

The Amendment

1. Qualifying capital works now include energy efficiency retrofits, renewable energy installation, and water conservation measures

2. Qualifying property to which LICs can apply now includes individual private property

3. Introduces use of property agreement between municipality and property owner (in addition to by-law to place charge on tax roll)

4. Enables a special charge for these works on these properties to be placed on property tax roll and receive priority lien status

5. Allows program delivery costs to be recouped

Benefits to Property Owners

- Governments can access and offer affordable financing to residents
- Municipalities can transfer LIC financing to subsequent property owners, allowing costs to be shared between current and subsequent owners

Benefits to Governments

- Reduce pressures on energy infrastructure
- Generate local economic benefits
- Reduce local air pollution
- Improve local building stock
- Supports GHG reduction goals
- Advances low carbon economy

Risks to Governments

- Implications for debt limits and credit rating
- Liability for faulty contracted work
- Default risk
- Administrative cost overruns
- Program design errors
- Lack of uptake

Risks to Participants

- Compliance with mortgage agreements
- Faulty contracted work
- Impediment to property sale
- Default risk

Q. Is financing something a retrofit program should include?

The Collective Approach

- TAF launched CHEERIO to support 20 Ontario municipalities in jointly exploring the opportunities and risks
- Managed by Clean Air Partnership

CHEERIO
COLLABORATION ON HOME ENERGY EFFICIENCY RETROFITS IN ONTARIO

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Phase 1 Deliverables

- Legal Briefing Note
- Program Design Template
- Qualitative Market Research
- FAQ and Issue Primer for municipal decision-makers

Legal Briefing Note

AIRD & BERLIS LLP
Barristers and Solicitors

a) Briefing Note addressing the legal/financial questions including background, basis, risks/barriers associated with implementation of an LIC financing program

a) Professional Insight and advice on key legal matters

a) Sample disclaimer language and sample template agreements that municipalities can use to limit liability along with detail on how the disclaimer should be implemented

Program Design Template

- Residential LIC Financing Pilot Program Design
  - Target Audience
  - Funding Sources
  - Program Set Up and Administration
  - Marketing Strategies
  - Positioning with Residential Incentive Programs
  - Program delivery approaches
  - Participant Cost-Effectiveness Analysis
  - Risk Identification and Mitigation Strategies
- MURB Program Recommendations
- Monitoring and Evaluation Framework

Qualitative Market Research

- Gauged level of homeowner interest in undertaking energy retrofits, and specific retrofit measures
- Estimated receptivity to LIC financing and identified common property owner questions and concerns
- Proposed communications approaches to clarify LIC process to maximize consumer understanding and appeal and overcome barriers to uptake
- Identified other key barriers a LIC program should address to ensure uptake

FAQ Series

- What is LIC financing?
- What are the implications of the amendment?
- What does LIC financing for EE upgrades look like?
- Why would a municipality undertake this type of program?
- How can municipalities finance an LIC program?
- Why would a property owner participate in this type of program?
- What risks are associated with this type of program?
- How can municipalities leverage LIC programs through partnerships?
- What kinds of measures can be included in the program?
- Who is using LIC for energy upgrades and what are they learning?

Primer

- Evolution of LICs for energy upgrades in Canada
- Provincial amendments to LIC regulations
- Using LICs for energy efficiency upgrades
- Benefits to municipalities
- Benefits to property owners
- Managing LIC program risk
- Program measures
- Leveraging partnerships

Phase 2 - LIC Update Report

- Developments in PACE/LIC Programs since 2013
- Addressed mortgage lender concerns
- Updated information on available measures
- Identified latest delivery models
- Identified key take-aways for Ontario municipalities
- Provided descriptions of existing PACE/LIC programs

Program	Jurisdiction	Model	Key Features	Established
Sonoma	CA	Local Government	Early local government-led program that has been successful in generating volume and validated energy savings.	2009
YGreen	CA/FL	Third-Party	A privately funded 3rd party PACE provider operating in multiple states (soon expanding to GA)	2010
HERO	CA	Third-Party	An early innovator into effective PACE marketing and quick customer approval, now available in over 300 jurisdictions.	2011
Vermont PACE	VT	Government + third-party	Vermont PACE assessments are subordinate to existing mortgages, with a Loan Loss Reserve to cover private lenders	2012
Maine PACE	MN	Local Government	Established a $20.4 million revolving loan fund, with underwriting performed by 3rd party. PACE assessments are subordinate to a home mortgage.	2013
Open PACE	CA	Competitive	A turn-key PACE solution that offers s a choice among multiple pre-qualified PACE financing providers.	2015
Solar City	Halifax	Local Government	Financing only for solar (photovoltaic and thermal), includes direct install water conservation measures for all applicants.	2012
Home Energy Loan Program	Toronto	Local Government	Program offers low-interest loans are available using the City's reserve funds. Program requires mortgage lender consent and homme energy assessment.	2014
Residential PACE	NS	Local Government	NS Dept. of Energy providing support for administration costs for up to 25 municipalities that want to offer PACE financing.	2016

On-Bill Financing – Enbridge

- Utilities have been allowed to do on-bill financing for over 20 years
- Provided 3rd party financing to the commercial sector until 2006
- Providing 3rd party billing service with HVAC equipment
- Markham Home Energy Retrofit program
- Testing on-bill financing for geo-thermal new construction
- Piloting micro CHP to generate electricity, heat and battery storage

On-Bill Financing Electrical Utilities

- Regulation Decision Notice Ontario Energy Board Act, 1998, Electricity Act, 1998
- Clarifies ability for LDCs to use OBF for CDM measures
- Date Decision loaded to the Registry: April 29, 2016
- No uptake by LDCs yet

Green Bonds – Province of Ontario

- Debt securities that use proceeds to fund projects with environmental benefits
- Ontario: first Canadian province to issue Green Bonds
- Eglinton Crosstown Light Rail Transit – Toronto
- Does not accept submissions directly from the broader public
- Standard debt obligations of the Province and rank equally with Ontario's other bonds

Green Bonds – Municipal

- Ottawa– 30 year offering @3.25%
- Raised C$102 million
- Matures November 2047
- City's framework says debentures are green if they are used to finance capital projects that promote environmental sustainability

Q. Which of these mechanisms would help you advance energy efficiency implementation? (Green bonds, LICs, On-Bill Financing, Other)

Potential challenges

Finance/legal approval
Council approval
Community appetite
Developer appetite
Liaising with utilities
Others?

CAP Recommendations to GreenON

1. Loan loss reserve creation
2. Expansion of measures
3. Build energy literacy
4. Create supportive policies
5. One stop shop
6. Transparency and accountability
7. Other?

Q. What would help advance your energy efficiency retrofit programming?

-Case studies
-Presentations on establishing EE programs
-Presentation from Toronto legal and finance on their LIC experience
-Provincial leadership
-Other?

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- Legal Briefing Note
- Program Design Template
- Qualitative Market Research
- FAQ and Issue Primer for municipal decision-makers
- 2016 LIC Update
- Bonds and Climate Change Report

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Questions?