

Clean Energy Improvement Program Bylaw

RECOMMENDATIONS:

That the Priorities and Finance Committee recommend that Council:

1. Direct Administration to publicly advertise the proposed Bylaw 53M2021; and
2. Direct Administration to bring the proposed Bylaw 53M2021 to Council for Public Hearing and three readings no later than 2021 Q4.

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, 2021 SEPTEMBER 07:

That Council:

1. Direct Administration to publicly advertise the proposed Bylaw 53M2021; and
2. Direct Administration to bring the proposed Bylaw 53M2021 to Council for Public Hearing and three readings no later than 2021 Q4.

HIGHLIGHTS

- **What is the Bylaw?** The Clean Energy Improvement Tax Bylaw (Bylaw) establishes a Clean Energy Improvement Program (CEIP) in Calgary, authorizes The City to borrow up to \$15 Million for financing clean energy improvements, and enables clean energy improvements to be made to eligible properties. The *Municipal Government Act* requires public advertisement of the Bylaw.
- **What does this mean to Calgarians?** Enabling CEIP in Calgary will allow eligible Calgary homeowners to access financing to complete clean energy improvements on their homes and repay through their property tax bill. This program will also generate projects for local energy efficiency and renewable energy contractors.
- **Why does it matter?** This program supports homeowners to finance energy saving improvements in their homes to decrease their greenhouse gas emissions, save money, and improve comfort and liveability. The program will be foundational to establishing low carbon financing programs in Calgary.
- The Economic Resilience Task Force (ERTF) has identified green investments and low carbon financing as a pillar for economic recovery after the COVID-19 pandemic. The ERTF requested a low carbon financing program be launched in 2022.
- Similar programs to CEIP have been successful in the United States and in Canadian municipalities (e.g., City of Toronto). Three municipalities in Alberta (Towns of Rocky Mountain House and Devon and the City of Edmonton) will be launching CEIP in 2021.
- This program will provide the homeowner with access to capital and preferred interest rates for clean energy improvement projects (e.g., insulation, windows, HVAC equipment, solar photovoltaic installations). Additionally, CEIP is unique in that the repayment of financing is tied to the home that receives the clean energy upgrades through its property taxes. In the event the owner sells the property, the repayment obligation can stay with the property and the new homeowner would take on the repayment while benefiting from the energy and cost savings of the improvement.
- In partnership with The City and the program administrator (the Alberta Municipal Services Corporation), the program design and program delivery processes will be established to open the program to homeowner applications in fall 2022.
- Strategic Alignment to Council's Citizen Priorities: A healthy and green city

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- The proposed Bylaw is included in Attachment 1. Attachment 2 is an overview of the program design for The City of Calgary and Attachment 3 is an overview of CEIP provided by the program administrator.

DISCUSSION

Low carbon financing programs have been identified as an action to reduce greenhouse gas (GHG) emissions and improve the performance of buildings in the community. Administration has evaluated options for implementing a low carbon financing program within the next year, as green investments and financing were one of the programs identified by the ERTF to respond to the economic challenges of COVID-19. CEIP was determined to be the program best suited to move ahead for two main reasons:

1. The provincial program administrator - the Alberta Municipal Services Corporation (AMSC) - has completed most of the program design and will complete the technical program administration tasks (e.g., application reviews).
 - a. Administration will be required to develop the financial processes for the program (e.g., financing agreement, repayment tracking), while the AMSC has designed and will manage the public-facing documents and processes (e.g., application form reviews, contractor training, CEIP website).
2. The Federation of Canadian Municipalities (FCM) is providing a limited term program that includes a loan and grant program targeted to municipalities launching community efficiency financing programs (approximately \$50 Million is allocated per year until 2026).

Passing an enabling bylaw is the first step to launch CEIP in a municipality. It authorizes the municipality to borrow for financing clean energy improvements and to use the property tax system as the repayment mechanism. Municipalities may borrow from a traditional lending organization such as a bank or credit union or through government funded lending organizations like the Green Municipal Fund (GMF). The Bylaw will enable The City to borrow up to \$15 Million for the program, which is anticipated to support up to 750 residential properties' clean energy improvements (assuming an average project cost of \$20,000).

Through the GMF, FCM is offering the following for four years of program delivery:

1. A loan of up to \$10 Million for residential financing programs (with an interest rate expected between 1% and 3% which will be passed down to the participants); and
2. An accompanying grant of up to \$5 Million to be used to offset operation costs for the municipality and the program administrator. FCM requires a portion of the grant funds to be used as a loan loss provision that will be set aside to pay down a portion of an outstanding Clean Energy Improvement Tax amount in the event a participant defaults on their payments. Claims made to the loan loss reserve are subject to the Green Municipal Fund's Municipal Loss Reserve Policy.

The City collects payments from homeowners through the property tax system and must repay the loan to the capital lenders over time, like a loan from a traditional bank, however, the grant from FCM does not need to be repaid. FCM's loan and grant can cover up to 80 per cent of the program costs (financing and operation costs), 20 per cent at minimum must be matched by The City of Calgary through in-kind, cash, or financing contributions. It is anticipated The City will source the majority of the 20 percent matching requirement from an external lender (e.g., Province of Alberta, bank).

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Funding Type	Source	Amount	Note
Financing/Loan	FCM	\$10 Million	Primary Lender
Financing/Loan	City of Calgary	\$5 Million	Secondary Lender
Maximum Financing/Loan		\$15 Million	
Grant (non-repayable)	FCM	\$5 Million	Operation Costs (e.g., staff time, marketing) & Loan Loss Provision

Program development and delivery will involve efforts from across the organization. Environmental and Safety Management, Finance, Assessment, Roads (local improvements), Communications, Law and the AMSC (the program administrator) will work together to develop processes for program delivery through early 2022. It is anticipated FCM's review of the funding application will take five to six months. A full timeline of the program development process is included in Attachment 2.

The first four years of program delivery can be supported by the FCM loan and grant and will be considered a pilot phase. If the program is successful in the first few years, Administration will explore the feasibility of increasing the amount that can be borrowed for the program and scale up the number of retrofits completed. Over the course of Q3 and Q4 of 2021, Administration is conducting research on complementary programs to CEIP for residential properties and alternative options to provide high-impact low carbon financing to commercial properties.

STAKEHOLDER ENGAGEMENT AND COMMUNICATION (EXTERNAL)

- Public Engagement was undertaken
 - Public Communication or Engagement was not required
 - Public/Stakeholders were informed
 - Stakeholder dialogue/relations were undertaken
- Public engagement was determined to not be required at this stage as the public will be able to provide feedback on the Bylaw during the Bylaw's public advertisement and public hearing process.
 - While direct public engagement was not completed, responses gathered through the public engagement process for the Environment Strategy (completed in January 2021) were considered during the development of this Bylaw.
 - Calgarians said that completing home renovations is one of the actions they would take to reduce their environmental impact and a major barrier they face is the cost of the upgrades and the lack of access to affordable financing. Several upgrades were identified that they would be interested in completing, many of which are included in CEIP as eligible upgrades.
 - Additionally, Administration sent a survey to targeted stakeholders and technical experts in March 2021. This survey was initiated to gather feedback on the state of low carbon financing in Calgary and identify opportunities and interest for stakeholders to participate.
 - The majority of responses supported the development of low carbon financing programs in Calgary and identified interest in participating either as an applicant, contributor, or partner of the program.

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- The ERTF received proposals for green investments and financing programs and projects to generate economic activity after COVID-19. CEIP was a strong proposal received by the ERTF and updates have been provided to the ERTF as Administration has developed the Bylaw.
- A webpage will be available on calgary.ca for the public to view information on CEIP and keep up to date as the program is developed and moves towards launch.

IMPLICATIONS

Social

Programs that support climate mitigation have long-term social benefits as these programs will help to minimize the detrimental effects of climate change. Energy efficiency upgrades provide more than energy savings and GHG reductions. Upgrading properties can lead to better air quality within the property (reducing cardiovascular and respiratory issues), better indoor temperature regulation and thermal quality, and more comfortable spaces.

Environmental

Residential buildings contribute 29 percent of Calgary's community GHG emissions, and a significant portion of the buildings that will exist in Calgary in 2050 have already been built today. Calgary's Climate Mitigation Action Plan identifies innovative low carbon financing programs as an action to improve building performance and reduce GHG emissions. CEIP provides a financing repayment mechanism to directly support homeowners to complete energy saving and emission reduction upgrades in their homes.

Economic

The Bylaw will authorize The City to borrow up to \$15 Million to finance clean energy improvements. This capital will be invested by homeowners into their properties generating energy and cost savings. It will lead to increased job opportunities for local energy efficiency and renewable energy contractors. The investments will also generate jobs throughout the supply chain (e.g., manufacturing), through additional spending in the economy due to increased income of workers, and through increased energy savings for participants. Attachment 2 provides information on the economic benefits of energy efficiency programs.

Service and Financial Implications

Other:

Include actual figure

A detailed program budget and analysis of the financial implications of the program will be included in the report when the proposed Bylaw is submitted to Council for three readings in Q4 2021. An illustrative example of the program budget has been included in Attachment 2.

The FCM grant is anticipated to off-set the administrative costs of the program for the first four years of program delivery. After the grant is exhausted, the legislation allows municipalities and the program administrator to charge an administration fee to the participants.

The *Municipal Government Act* states that borrowings made for financing clean energy improvements does not count against the debt limit or debt service limit of The City. The Bylaw

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will enable The City to borrow up to \$15 Million for the program. Administration will apply to FCM to secure the available \$10 Million loan once the Bylaw is passed. The City will engage another lender (e.g., bank, Province of Alberta) for up to \$5 Million. The costs of borrowing (i.e., the interest rate) are passed down to the participant and are captured in the Clean Energy Improvement Tax on the participant's property tax assessment.

RISK

Risk associated with implementing the program will be expanded on in the report when the proposed Bylaw is submitted to Council for three readings in Q4 2021.

There is some reputational risk associated with the advertisement of the Bylaw. During the bylaw advertisement period, there may be confusion within the public of the intent of the Bylaw (e.g., confusion on who the new Clean Energy Improvement Tax may affect, or the voluntary nature of participation) or expectations will be set for launch of the program. This potential risk will be mitigated by providing communications materials, social media communications, and the development of a webpage with details about the Bylaw and the program. The anticipated timeline and milestones required before a program launch will be made clear in communications. Additionally, staff will be available to answer the public's questions.

In programs across North America, property-tied energy efficiency financing programs have had low rates of defaults. Eligibility criteria for properties and participants have been included in the Bylaw to reduce the risk of defaults through the program. Municipalities can use the property tax recovery process outlined in the *Municipal Government Act* to recover defaulted payments. Additionally, a portion of the grant offered by FCM is used as a loan loss provision that can be used in the event a participant defaults on payments.

This type of program is new to Alberta and program uptake is unknown. Municipalities in eastern Canada have seen moderate to high uptake in their similar programs (e.g., Halifax has financed over \$18 Million in solar projects over the past nine years with uptake limited by their amount of capital allocated to the program). The City and the AMSC will implement a waitlist system in the event program uptake is higher than the capital allocations of the program.

ATTACHMENT(S)

1. Attach 1 – Proposed Clean Energy Improvement Tax Bylaw 53M2021
2. Attach 2 – City of Calgary's Clean Energy Improvement Program Background
3. Attach 3 – AMSC CEIP Overview

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Michael Thompson	Utilities and Environmental Protection	Approve
Carla Male	Chief Financial Officers Department	Approve
Christopher Collier	Utilities and Environmental Protection	Approve

**Utilities & Environmental Protection Report to
Priorities and Finance Committee
2021 September 7**

**ISC: UNRESTRICTED
PFC2021-1198
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Les Tochor	Chief Financial Officers Department	Approve
City Solicitor	Law	Consult
City Clerk	City Clerk's Office	Consult