



## REQUEST FOR DECISION

**MEETING DATE:** May 15, 2023

**TITLE:** Clean Energy Improvement Program - Policy Discussion

**DIVISION:** Corporate Services

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### SUMMARY:

To seek Governance and Priorities Committee direction on key program elements that will inform development of the Clean Energy Improvement Program bylaw and program design.

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### PROPOSED MOTION:

A motion is not required.

### BACKGROUND / ANALYSIS:

#### Clean Energy Improvement Program (CEIP) - Overview

In June 2018, the Government of Alberta (GOA) passed *An Act to Enable Clean Energy Improvements* (Act), which came into force when the GOA brought forward the supporting Clean Energy Improvement Regulation (Regulation) in January 2019. Together, the Act and Regulation established the framework for Alberta municipalities to establish a CEIP.

CEIP (or what is called Property Assessed Clean Energy (PACE) in other jurisdictions) is a financing program that reduces upfront cost barriers for property owners of existing residential and/or non-residential properties to make energy improvements.

A municipality borrows funds and provides financing to property owners to make energy efficiency and renewable energy upgrades more affordable, through competitive rates and repayment terms of up to 25 years depending on the project type and lifetime. Once a CEIP project is complete, a Clean Energy Improvement Charge is added to the participant's property tax bill, similar to a local improvement assessment. This new payment will remain on the

property for the length of the term in the agreement - property owners would continue to pay their property tax bill the same way they always have. A unique feature of CEIP is that financing is tied to the property rather than the property owner and if the property is sold, the amount can be repaid according to the terms of the sale agreement, or the new property owner assumes repayment.

Municipal participation in CEIP is enabled through passing a Clean Energy Improvement Program Bylaw to allow a municipality to provide the upfront financing for eligible clean energy projects and recover those costs by levying a clean energy improvement tax on the participating property. The bylaw, which can enable both a residential and non-residential CEIP, allows Administration to begin securing the financing for both programs.

**CEIP - Borrowing Instruments and Launch Timelines** (For more details, see Appendix 1 - Overview of Borrowing Instruments)

Administration has recommended to finance and stagger the launch of the two streams of CEIP as follows:

**Launch CEIP for residential properties - year one (January 2025)**

This will be financed through the Government of Canada's Community Efficiency Financing (CEF) program which is administered by the Federation of Canadian Municipalities (FCM). The CEF program is only available for residential CEIP for four years. It offers the following benefits:

- Competitive interest rates (estimated at two to three per cent) on the FCM loan, which is for up to 80 per cent of total program costs (which are defined as program financing plus administrative costs).
  - The FCM interest rate will be lower than what can be secured through another lender.
- A significant grant of up to \$1.03 M for City administrative costs, including start up and any incentives offered. The grant is calculated at the lesser of 50 per cent of the FCM loan or the total value of municipality's actual administrative costs.
  - As the grant would cover administrative costs, the City would not need to charge residential property owners the five per cent one-time administrative fee indicated in the Regulation for the first four years otherwise required under non FCM borrowing.

Under the FCM borrowing instrument, a municipality must contribute a minimum 20 per cent of total program costs. The City would secure this financing through another lender.

After the four years, the ability to continue financing the program would depend on Administration finding another lending source if the CEF program is not extended.

## **Launch CEIP for non-residential properties - year two (January 2026)**

This will be financed by the City obtaining a different loan for 100 per cent of the program costs. As non-residential CEIP is not funded through CEF:

- The FCM is not involved and there is no grant available.
  - The City would need to charge non-residential property owners a five per cent one-time administrative fee for those applying in year one and beyond.
- The program can run for however long Council chooses to make financing available (current borrowing calculations are based on four-year duration).

### **Considerations**

- Over four years (see Appendix 2 - Table 1 for more details on operating budget):
  - The residential program and the non-residential program would have a small positive impact to the budget over the first four years of the program.
    - This is due to the high value (up to \$1 Million) of non-residential projects and the associated higher amount that will be charged in administrative fees, with actual administrative costs being below that.
    - Alberta Municipalities (ABMunis) has indicated that for municipalities to ensure the long-term sustainability of CEIP after the four years of CEF funding is complete, a non-residential program is needed to avoid budget impacts as the lower value (up to \$50,000) of residential projects means that the five per cent administrative fee is not likely to cover the CEIP administrative costs.
- Based on discussions with ABMunis and other jurisdictions, a staggered launch is recommended, starting with the residential program:
  - This will limit the administrative burden on the City and provide an opportunity to refine any program processes before launching the non-residential.
  - This will allow for the CEF grant to be used towards the bulk of the start-up costs of the program.
  - This is consistent with the approach of other jurisdictions.
    - Of the five comparator jurisdictions, all have started with residential CEIP and only one plans to implement non-residential CEIP in the near future (see Appendix 3 for more details).
    - The majority of the 23 Alberta jurisdictions implementing CEIP are only launching a residential CEIP; only three have/will be launching a non-residential stream in the near future.

It is important to note that the provincial legislative framework has a provision that any borrowing the municipality does for financing CEIP will not count against the municipality's debt limit or debt service limit.

**CEIP in COSG - Estimated Uptake and Financing Needed** (For more details, see Appendix 2).

Based on similar sized municipalities, ABMunis provided the following preliminary estimates of uptake and average project costs for the first four years in COSG.

<b>Table 1 - Sample COSG CEIP Financing Estimates Residential Properties</b>					
	<b>Year One</b>	<b>Year Two</b>	<b>Year Three</b>	<b>Year Four</b>	<b>Total</b>
<b>Number of Projects</b>	38	32	34	36	140
<b>Average Project Cost</b>	\$21,810	\$21,810	\$21,810	\$21,810	
<b>Total Estimated Financing</b>	\$828,780	\$697,910	\$741,540	\$785,160	\$3,053,400

<b>Table 2 - Sample COSG CEIP Financing Estimates Non-Residential Properties</b>					
	<b>Year One</b>	<b>Year Two</b>	<b>Year Three</b>	<b>Year Four</b>	<b>Total</b>
<b>Number of Projects</b>	4	4	5	5	18
<b>Average Project Cost</b>	\$250,000	\$250,000	\$250,000	\$250,000	
<b>Total Estimated Financing</b>	\$1,000,000	\$1,000,000	\$1,250,000	\$1,250,000	\$4,500,000

The draft bylaw specifies \$8M maximum borrowing, recognizing that the estimated borrowing would likely not exceed \$7.553M.

**CEIP - Draft Bylaw Overview**

The first step all municipalities must undertake is passing a CEIP bylaw. The bylaw sets up the legal framework for CEIP including the roles of the key parties and borrowing and tax provisions.

An initial draft of the CEIP bylaw has been prepared and reviewed by ABMunis (see Appendix 4). Much of the bylaw contains standard provisions required by the legislative framework and/or recommended by ABMunis and have been used in other Alberta municipalities (see Appendix 5 for bylaw checklist).

Committee may want to make note of the following draft bylaw provisions:

- Section 8.2(a): establishes the minimum and maximum value of project costs (Decision Point 1b)
- Section 8.4(a)(xiv): establishes the maximum value of incidental costs (Decision Point 1b)
- Section 10 (and preamble): authorizes the maximum borrowing amount, term and maximum interest rate for City borrowing for CEIP and whether the funds will be allocated yearly (Decision Point 1a)
  - The \$8 Million dollar amount in the draft bylaw is an upper borrowing threshold based on ABMunis initial assessment of the number of anticipated uptake for both the 140 residential and 18 non-residential properties in the COSG. If the market evaluation comes in at a higher number, the bylaw will be brought back to Council with a new borrowing maximum.
  - The seven per cent maximum interest rate is based on the maximum interest rate the City would pay to borrow. Currently, the CEF has been lending with a two per cent rate and the City would need to secure other financing at a higher rate.

As the draft bylaw only includes the estimated borrowing amount needed for four years of residential and non-residential CEIP, a new bylaw will need to be brought forward to continue the program after the four years.

#### **CEIP - Partner Roles** (See Appendix 6 for a project administration process map)

For both the residential and non-residential CEIP:

ABMunis is the provincially designated program administrator. They are responsible for:

- Program development: Supporting municipalities with bylaw development, CEF application (residential only), program design and communication plans;
- Program implementation: Supporting municipalities with application and payment processing, website management, participant and contractor customer service, contractor onboarding, and marketing and engagement; and
- Supporting quality assurance processes and program reporting requirements.

The municipality is responsible for:

- Program development: Collaborating with ABMunis on developing and passing the bylaw, preparing CEF application (residential only), convening internal team to develop program design and seek Council's approval of any subsequent policy decisions;
- Securing financing;
- Program implementation: Undertaking above processes in collaboration with ABMunis; and
- Reporting and evaluation: Undertake above processes in collaboration with ABMunis.

Once the bylaw passes third reading, Administration will begin working with ABMunis to apply for the CEF for the residential program.

## **CEIP - Current Status**

Alberta has been relatively ahead of many other Canadian jurisdictions in accessing CEF funding as some other provincial/territorial jurisdictions have not yet passed the required enabling legislation/regulation. Thus far in Alberta, 23 municipalities have passed clean energy improvement bylaws and nine of those municipalities have launched a CEIP. Administration has had conversations with five Alberta municipalities of similar size and socio-economic make-up (see Appendix 3) to gain an overview of their approach and lessons learned and will apply these learnings to develop a 'made in Spruce Grove' approach.

The FCM has indicated that a program refresh of the CEF is underway, with changes targeted for a late spring 2023 announcement. Early indications are that going forward, CEF will include carve-out funding to address the current regional disparity in accessing funding and will increase the emphasis on innovative approaches in the application. While all Alberta municipalities that applied for CEF have been successful to date, going forward the application process may become somewhat competitive as Alberta's municipalities have more heavily subscribed to CEF compared to that of some other provinces.

In November 2022, as part of the Corporate Plan deliberations, Council approved Administration to allot \$60,000 one-time funding to develop the CEIP program. At that time, members of Council expressed interest in the CEIP being a long-term program rather than a pilot, and in having residential and non-residential properties eligible for funding.

## **OPTIONS / ALTERNATIVES:**

The following section outlines the three decision points for Committee to provide feedback on to inform the draft bylaw and program design. Council will be able to affirm the bylaw and program design through readings of the bylaw and periodic review of the program as outlined in the next steps section at the end of the RFD.

## **CEIP Program Elements**

CEIP is a complex program with a number of program components. The proposed approach for the City is that as program development proceeds in fall 2023, Administration will return to Council with any key decisions (e.g., specific incentives if Council wishes to include them.) For more minor program elements, Administration is recommending implementing the approach that most other Alberta municipalities have taken. This includes for elements such as the categories of clean energy improvements that are eligible (doors, windows, insulation, and air sealing; HVAC (heating, ventilation and air conditioning); lighting; renewable energy (solar etc.); water heating; and custom upgrades.)

### Decision 1a - Allocation of funds by year (Section 10 - Bylaw Requirement)

Under CEIP, municipalities have the option of allocating the amount of available capital in a lump sum or by year. ABMunis recommends allocating funds in a lump sum to minimize the likelihood of applicants having to go on a waitlist once a particular year's funding has been allotted. While four of the five jurisdictions reviewed allocated funds yearly in their bylaw, some of these were among the early municipalities to launch a CEIP and have indicated that if they were to revisit their approach, a lump sum allocation would have been preferable. See Appendix 3 for more details.

#### Decision 1a - Options Table (see Appendixes 2 - 4 for supporting details)

	Option 1 - Allocate funds in lump sum (recommended)	Option 2 - Allocate by year
Pros	<ul style="list-style-type: none"><li>• Reduce the possibility of waitlist</li><li>• Consistent with experienced municipalities and AM advice</li></ul>	
Cons	<ul style="list-style-type: none"><li>• If there is a high volume of applicants in early phase of program:<ul style="list-style-type: none"><li>- Heavy administrative burden for COSG</li><li>- Need to manage expectations of applicants regarding processing timelines</li></ul></li></ul>	<ul style="list-style-type: none"><li>• A waitlist could be needed if initial interest is high, which could result in reduced citizen satisfaction</li></ul>

### Decision 1b - Minimum and maximum costs - capital and incidentals (Section 8.2 - Bylaw Requirement)

The Regulation sets out minimum and maximum values for the capital portion of the project costs associated with each property type, which the City can then amend under bylaw if they see the need:

- \$3,000 minimum capital cost (residential/non-residential).
- \$50,000 maximum capital cost (residential).
- \$1.0 million maximum capital costs (non-residential).
- Up to 15 per cent of the capital costs on either property type can be spent on incidentals.
  - Incidentals are defined as an amount expended on preparation or upgrading of a property that is incidental to the clean energy improvement.

Amongst the five comparator jurisdictions:

- All specified that their minimum and maximum values apply to the owner's project costs (capital, professional fees, incidentals) rather than just the capital costs.
- Three retained the minimum and maximums values listed in the Regulation. Of the remainder:
  - One increased the minimum cost from \$3,000 to \$5,000 (they may change this to \$10,000)
  - One lowered the maximum value for non-residential to \$100,000 and \$500,000

#### **Decision 1b - Options Table (see Appendix 3 - 4 for supporting details)**

	<b>Option 1 - Do not make any changes from what is set out in the Regulation</b>	<b>Option 2 Make the maximum and maximum values apply to project costs in the bylaw  and Maintain incidental values set out in Regulation (recommended)</b>
<b>Pros</b>		<ul style="list-style-type: none"><li>• Consistent with the approach taken by all comparator jurisdictions</li><li>• Will allow for more projects to be funded as incidentals and professional fees can constitute over 15 per cent of the project cost</li></ul>
<b>Cons</b>	<ul style="list-style-type: none"><li>• Departs from comparator jurisdictions without compelling rationale for change</li></ul>	

#### **Decision 1c - Explore Inclusion of Financial Incentives (Not in Bylaw)**

Under CEIP, municipalities can choose to provide financial incentives to property owners to complete upgrades or undertake specific upgrades of interest. All five comparator jurisdictions offer incentive, though the type and value vary:

- Rebates between \$500 - \$1,350 for completion of upgrade project
- Rebates of \$650 for completion of pre and post energy evaluations (required by CEIP)
- Rebates of \$650 towards the cost of installing electric vehicle chargers

The incentives are typically credited against the CEIP debt of the property upon completion of the project and are not expected to be difficult to administer.



For preliminary budgeting purposes, the tables in Appendix 2 include a placeholder of \$196,000 for incentives for residential properties (140 properties x \$1400 - this figure is based in part of the value of the incentives for residential properties provided by comparator jurisdictions). Should Council direct Administration to explore the inclusion of incentives for residential properties, Administration will provide Council with options in fall 2023.

The costs of any incentives for residential properties in the first four years would be covered by the FCM grant, so there would be zero net cost to the City.

**Decision 1c - Options Table (see Appendixes 2 - 3 for supporting details)**

	<b>Option 1 - Direct Administration to explore provision of financial incentives for residential property and return in late 2023 with options (recommended)</b>	<b>Option 2 - Do not offer incentives</b>
<b>Pros</b>	<ul style="list-style-type: none"> <li>• Helps offset costs to applicant</li> <li>• All comparator jurisdictions offer incentives for residential</li> <li>• More likely to be successful with the CEF application if incentives are included as FCM considers them to be an innovation</li> <li>• If use FCM borrowing instrument, the City will not incur any net costs for the incentives for the first four years</li> </ul>	
<b>Cons</b>		<ul style="list-style-type: none"> <li>• Departs from comparator jurisdictions</li> <li>• Less likely to be successful with the CEF application</li> </ul>

**CONSULTATION / ENGAGEMENT:**

If the bylaw passes first reading, Administration will proceed with the required advertising for the public hearing and petition period.

## IMPLEMENTATION / COMMUNICATION:

- June 26, 2023 Council - First reading of bylaw
- June 27, 2023 - July 21, 2023: Petition period for borrowing bylaw (including advertising)
- August 1, 2023 - August 20, 2023: Advertising for public hearing (website, newspaper)
- August 21, 2023 Council - Public hearing, second and third reading of bylaw
- Undertake FCM application process:
  - Sept 2023 - Join ABMunis cohort
  - Sept - Nov 2023 - Conduct market study
- Nov 2023 - Provide Council with policy options for any remaining program element (s) (e.g., residential incentives)
- Dec 2023 - Jan 2024 - Submit and hear back on initial CEF application
  - Feb - Aug 2024 - **If initial application is successful, submit and hear back from CEF final application**
  - **If initial or final CEF application is unsuccessful, return to Council with alternate options to implement CEIP**
- Aug 2024 - Complete necessary agreements (City with each of FCM and ABMunis)
- Sept 2024 - Secure funds from FCM and 20 per cent City portion
- Sept - Dec 2024 - With support from ABMunis, assemble internal CEIP team (Finance, IS, Policy, and Planning Departments) to develop detailed program design and tax roll process
- Oct - Dec 2024 - Develop communications plan, engage public and contractors
- **Jan 2025 - Launch CEIP (residential properties)**
- **Jan 2026 - Annual report to Council and launch CEIP for non-residential properties**

## IMPACTS:

Estimated environmental benefits of 140 residential property upgrades over four years are:

- Lifetime energy savings: 222,535 GJ
- Lifetime utility bill savings: \$3.0 M
- Lifetime GHG emission savings: 13,835 t CO<sub>2</sub>e

## FINANCIAL IMPLICATIONS:

See Appendix 2.

## **APPENDICES:**

1. CEIP Borrowing Instruments
2. Financial Scenarios
  1. Table 1 Operating Budget
  2. Table 2 Residential CEIP Cashflows
3. Cross-Jurisdictional Table
4. Draft Bylaw
5. Bylaw Checklist
6. CEIP Project Administration Process Map