

Options for the Design of a Home Energy Loan Program

ISSUE

Saskatoon City Council approved initial funding for the development of a Property Assessed Clean Energy (PACE) Financing Program during the 2020/21 Business Plan and Budget deliberations. PACE financing programs are an emerging tool in Canada that offers low cost loans to property owners to help facilitate and incentivize energy efficient upgrades and renewable energy installations.

A structure has been created for Saskatoon's own version of PACE, called the Home Energy Loan Program (HELP). What are the potential program design options that can enable the success of the program?

BACKGROUND

2.1 History

On June 26, 2017, City Council set greenhouse gas (GHG) emissions targets for Saskatoon based on the 2014 inventory as follows:

- “1. 40% reduction in GHG emissions for the City of Saskatoon (City) as a corporation by 2023; and a reduction of 80% by 2050.
2. 15% reduction in broader community emissions by 2023 and a reduction of 80% by 2050.”

In response to these targets, the City released the *Low Emissions Community Plan* in 2019, which demonstrated a 30-year roadmap for reducing emissions to target levels. The plan recommends 40 actions to reduce emissions in Saskatoon; eight of these actions refer to residential and commercial building improvements.

2.2 Current Status

During the 2020/2021 Budget deliberations on November 27, 2019, the development of a Property Assessed Clean Energy (PACE) Financing Program for the City was allocated \$80,000 from Multi-Material Stewardship Western funding in the 2020 fiscal year. The approved funding was leveraged to successfully apply for a Federation of Canadian Municipalities (FCM) grant, which will provide up to an additional \$102,750 for program research and design, or 50% of eligible costs. This amount will cover, in part, employee salaries for work on the program.

Provincial legislation that allows for the City (and all municipalities in Saskatchewan) to offer PACE loans to residents was passed on July 3, 2020.

Public engagement, best practice research from similar Canadian property tax loan programs, and a review of Saskatoon's current approach were used to develop the base program and options for HELP. Approval of the program design is required from City Council to proceed with borrowing approvals, applying for an additional FCM offering of a grant and financing, and preparation of the Bylaw. A second report will follow to seek approval for the finalized HELP Bylaw and financing details, required to begin implementation.

2.3 Public Engagement

Engagement consisted of two phases that were completed between May and November 2020. Phase 1 included virtual discussions with key stakeholders and two online surveys (one for industry stakeholders and one for residents) where the public and stakeholders commented on program components. Phase 1 engagement informed the first draft design recommendations for the program.

Phase 2 engagement consisted of additional virtual discussions with key stakeholders, a “Close the Loop” survey for residents, and opportunity to email or phone the project manager. The design recommendations developed during phase 1 were shared to determine any concerns or opportunities with the proposed program design.

Full details on the public engagement process and results are available in Appendix 1 - Comprehensive Engagement Report. Overall, participants of the engagement process provided positive feedback about the program design recommendations and were largely in agreement on most program components. In many cases, specific feedback was received which was used to adjust the final program design.

2.4 City of Saskatoon’s Current Approach

The City does not currently have any programs that are specifically aimed at increasing energy efficiency and/or renewable energy in homes through property tax loans or deferrals. However, the City has used property tax deferrals like what is being proposed for HELP, to achieve other goals.

Tax Deferral Program for the Replacement of Lead Water Connections

This program was established in 2017 and allows property owners to defer their portion of the cost of replacing lead lines on their property for 1, 3, or 5 years with a 10-year deferral option for households that qualify as low income. The deferred amounts can be added on a monthly repayment schedule or deferred as a lump sum. The tax deferrals are zero interest, with a one-time administration fee corresponding with the length of the deferral.

Tax Deferral Program for Low Income Senior Households

This program was established in 2012 through the Low-Income Seniors Income Tax Deferral Bylaw. Applicants must be 65 years of age or older, own and reside in a single-family home, townhouse or condominium, and meet low income requirements. The City’s tax deferral programs provide an administrative process and framework, using revenue and finance staff, that can be used for the HELP program.

2.5 Approaches in Other Jurisdictions

Research from other jurisdictions shows that municipally supported, energy efficiency home loans are an emerging area of interest. Nine PACE Programs were reviewed, representing twenty-four municipalities throughout various provinces. Three of the reviewed programs have been established for over a year and have program participation history to draw from, one is a pilot program that has been completed, and the remaining five programs are in the early design phase, implementation phase, or soon to be launched. PACE financing programs require provincial legislation in order to be implemented. In summary:

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- Loan-based energy programming has existed in the City of Toronto, the City of Halifax, and many other small Nova Scotian Municipalities for up to 7 years.
- The City of Edmonton is actively working on a PACE financing program.
- PACE pilots have been conducted in Vancouver and in small communities in Quebec, prior to enabling legislation being enacted.

A summary of research completed for the program design is available in Appendix 2 – PACE Research and Projections.

OPTIONS

Base Program Design

The base program design has been developed using best practice research, public engagement, and internal review through a Choosing by Advantages decision-making framework. The overarching principles used in this analysis, in order of importance, include:

- Program uptake;
- Financial sustainability;
- Stakeholder preference (both residential and industry stakeholders);
- Greenhouse gas reduction potential;
- Equity considerations;
- Program complexity;
- Compatibility with existing programs within the City; and
- Precedence in other jurisdictions.

The base program details are provided in Table 1. Further explanation of each design element, including how they meet the principles outlined above, is provided in Appendix 3 – Home Energy Loan Program Design.

Table 1. Home Energy Loan Program – Base Design Elements in All Options

Program Element	Recommendation
<i>Program Administrator</i>	City of Saskatoon administers the program
<i>Program Name</i>	Home Energy Loan Program (HELP)
<i>Participant Eligibility</i>	Single-family residential property owners
<i>Project Eligibility</i>	Energy efficiency projects, renewable energy installations, water conservation projects, and other projects. See the full list of allowable projects in Appendix 3 under the heading “Project Eligibility”.
<i>Use of Energy Audits</i>	Pre- & post- EnerGuide audits required. Audit cost can be included in the HELP Loan.
<i>Qualified Contractor List, Requirements & Contractor Payment</i>	Contractor list established by the City of Saskatoon, but residents do not have to choose a contractor from the list and do-it-yourself (DIY) projects are allowed (only materials in DIY projects would be funded). To be on the list, contractors must have a Workplace Compensation Board number, general liability insurance of at least \$2M, be a registered corporation in Saskatchewan, and have completed training on the loan program. The City pays contractors directly where applicable.

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<i>Loan Amount per Household</i>	Min \$1,000, Max \$40,000 with the ability to increase maximum loan up to \$60,000 with 50% of more energy efficiency achieved relative to pre-retrofit performance.
<i>Loan Repayment Terms & Interest Rates</i>	Flexible repayment term; Residents pay interest equal to the interest rate paid by the City, or, if internal loans are used, equal to the rate the City would receive if funds were invested.

Administration recommends that the operating costs for administering the program should be covered through an administration fee paid by participants; however, the amount of this fee could be reduced to make the program more attractive or accessible to low income households. Three options were analysed to determine how this administration fee might be applied, including:

- Option 1: No administration fee charged to participants;
- Option 2: Administration fee waived for income-qualified residents; or
- Option 3: Administration fee charged to all participants (no exceptions for income-qualified).

The results of the options' analysis are summarized in Table 2 highlighting how they differ in terms of revenue potential, equity, consistency with other programs, stakeholder preference, program complexity, and precedence in other jurisdictions. In order to consistently compare options, it was assumed that:

- All programs include the base program design elements outlined in Table 1;
- Annual program operating costs of approximately \$180,000 - \$216,000 for all options;
- Administration fees, where charged, would be \$500 per participant;
- The program would run for 2 years and is targeting 100 participants within the first two years, with the opportunity for extension if additional funding became available;
- Capital funding to loan to participants would be required, which would be confirmed through a future intent to borrow report;
- No external funding from FCM to support additional rebates or incentives for participants is included;
- Loan capital and interest would be re-paid by program participants over the duration of their HELP loans.

Table 2. Home Energy Loan Program Options Analysis

Impact	Option 1: No administration fee charged to participants	Option 2: Administration fee waived for income-qualified residents	Option 3: Administration fee charged to all participants
Financial Implications	<ul style="list-style-type: none"> • Net program cost after 2 years is \$380,000 with no revenue. • Program will never break even. 	<ul style="list-style-type: none"> • Net program cost after 2 years is \$335,000, offset by program revenues of \$45,000. • Assumes 10% of total households or approximately 40 households accessing the program are income qualified. • Program could break even with 390 participants annually, 355 	<ul style="list-style-type: none"> • Net program cost after 2 years is \$330,000, offset by program revenues of \$50,000. • Program could break even with 355 participants paying the admin fee annually.

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		paying the admin fee and 35 not paying an admin fee.	
Equity	<ul style="list-style-type: none"> Reduces financial barriers for all participants to access the program. Equal application of benefit to all homeowners. 	<ul style="list-style-type: none"> Reduces barriers for income-qualifying households and requires households of higher income levels to cover program costs. 	<ul style="list-style-type: none"> Barrier for low income households to participate in program, as equity is reduced.
Consistency with other Saskatoon programs	<ul style="list-style-type: none"> Not consistent with other tax deferral programs which charge administration fees regardless of participant income. May require other tax deferral programs to be adjusted. 	<ul style="list-style-type: none"> Not consistent with other tax deferral programs which charge administration fees regardless of participant income. May require tax deferral programs to be adjusted. 	<ul style="list-style-type: none"> Consistent with other tax deferral programs. No implications for other programs.
Stakeholder Preference	<ul style="list-style-type: none"> Most preferred option. 	<ul style="list-style-type: none"> Second most preferred option. 	<ul style="list-style-type: none"> Least preferred option.
Program complexity	<ul style="list-style-type: none"> Minimal complexity as no income qualification process would be needed. Program running continual deficits could increase complexity; administration would be required to ask for funding in the next budget cycle. 	<ul style="list-style-type: none"> More complex as income qualification process required. However, this process already exists in other tax deferral programs. 	<ul style="list-style-type: none"> Minimal complexity as no income qualification process would be needed.
Precedence in other Jurisdictions	<ul style="list-style-type: none"> No example of long term, multi-year PACE programming without an administration fee in other jurisdictions. 	<ul style="list-style-type: none"> Interview with one municipality in the design phase of their program suggested they may waive administration fees for low-income households. 	<ul style="list-style-type: none"> Most common in established PACE programs.

Enhanced and Scaled Program

This report also includes details about an expected funding opportunity (FCM Community Efficiency Financing stream) that would allow for expansion of the base program including a longer time period and additional funding for rebates and incentives. Establishing the base program will allow the Administration to apply for FCM funding and run the program for at least four years. For full details of the long-term program implications, see Appendix 2 – PACE Research and Projections.

RECOMMENDATION

That the Standing Policy Committee on Environment, Utilities and Corporate Services recommend to City Council that:

1. The Home Energy Loan Program design elements as set out in *Table 1, Home Energy Loan Program – Base Design Elements in All Options*, plus *Option 3: Administration fee charged to all participants*, be authorized for implementation in accordance with the Cities Act;
2. The City Solicitor be directed to develop a bylaw to establish the Home Energy Loan Program;
3. Capital Project P1956 – Property Assessed Clean Energy Financing Program be increased by \$352,750, funded from the existing FCM grant of \$102,750 and \$250,000 from the Environmental Sustainability Reserve;
4. Internal borrowing in the amount of \$2,500,000 be allocated, subject to public notice and an intent to borrow report, for capital loans for the participants of the Home Energy Loan Program; and
5. The Administration complete an application for the Federation of Canadian Municipalities' (FCM) Community Efficiency Financing program, which if approved, would be utilized for the Home Energy Loan Program set out in this report, including up to \$10,000,000 of borrowing for loan capital from the Federation of Canadian Municipalities (borrowing will be subject to public notice and an intent to borrow report).

RATIONALE

The base design is founded on best practise research and has been refined through internal and external reviews. Appendix 3 – Home Energy Loan Program Design provides a full rationale for each program element being recommended. The base program has available funding (pending loans) for the first two years and applying for FCM funding will allow the program to be scaled up and enhanced.

Option 3 is recommended as it was the least expensive option, most aligned with other City programs and consistent with other Canadian programs.

There are limitations to Option 3. Because Option 3 charges an administration fee to all households regardless of income, it may result in a financial barrier to low income households that may benefit most from energy improvements. Projected uptake by low income households is expected to be less than 10%, even with the administration fee

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waived, and charging the fee may reduce this slightly further. Option 3 was the least preferred by stakeholders and scored the lowest during the triple bottom line analysis.

Option 3 has a 2-year net-cost of \$330,000 after projected revenues of \$50,000, making it the least expensive of the three Options. The higher revenue means that it would reach cost neutrality more quickly than Option 2, with Option 1 not reaching cost neutrality within the parameters set out in the base program. Lastly, the City's other tax deferral programs charge administrative fees to participants regardless of income. Consistency with HELP and the other programs would streamline the program administration and aid in public understanding of the new program. There is also a risk that if administration fees are not included, a review of the other programs would be required as a result. For these reasons, Option 3 is recommended.

FINANCIAL IMPLICATIONS

Operational Program Costs and Funding

Funding of \$330,000 is needed to develop and run the program for the first two years. The operational cost is \$380,000 as shown in Table 3.

Table 3. Total Development and Operational Program Costs for Option 3

Item	2021	2022	Total Program
Staffing	\$155,000	\$135,000	\$290,000
Marketing & Education	\$50,000	\$30,000	\$80,000
Web programming and other IT	\$10,000	\$0	\$10,000
Total Costs	\$216,000	\$180,000	\$380,000

Assuming revenues of \$50,000 (100 participants and a \$500 administration fee per participant); the funding required is \$330,000. This funding is available from:

- \$80,000 existing budgeted employee salaries. Existing employees have been working on the initial FCM project and the City will be reimbursed from that funding. This will leave budgeted salaries available for this program.
- \$250,000 from the Sustainability Reserve's 2020 allocation.

Loan Capital Program Costs

\$2,500,000 of loan capital is required to provide loans to approximately 100 participants at an average of \$25,000/loan (anticipated to take up to two years). The \$2,500,000 of loan capital can be borrowed internally through a line of credit where the funds will be borrowed as required. An intent to borrow report will be provided with loan details for Council approval. The loan capital and interest will be repaid by program participants over the duration of their HELP loan.

Administration is not recommending an annual cap on the program. After 1-year, if loan capital is used up, is projected to be fully used, or if participation in the program is much lower than projected, administration will provide an update to City Council to request

program changes. If additional financing is required and no additional financing is available, the program would end.

FCM Community Efficiency Financing

A funding opportunity from FCM, exclusively for PACE financing programs, is expected to be available starting March 1, 2021. A loan of up to \$10,000,000 plus a grant equal to 50% of the total loan (i.e. a \$5,000,000 grant) could be secured. Together, the loan and grant from FCM are expected to cover 80% of eligible expenditures such as loan funds for participants, program advertising, staff remuneration, and rebates or incentives.

The City would be required to cover the remaining 20% of eligible expenditures. In order to apply for this funding, the City must have this funding committed. Therefore, the Administration is recommending \$2,500,000 of internal borrowing for participant loans, plus \$352,750 for program development, which can then be leveraged through an application to FCM.

Securing FCM funding would extend the program duration from two to four years and allow the program to offer rebates and incentives. It is expected that FCM will require the funds to be spent within four years.

More details about this funding offer are available in Appendix 4 – FCM Funding Offer.

Long-term Program Costs and Revenue

Assuming ongoing operational costs stay constant (between \$180,000-\$216,000 per year) and revenues grow with participation (at \$500 per participant), the gap between costs and revenue should shrink. The break-even point occurs at approximately 355 participants annually. Based on performance in other programs in Canada, this could be achieved around year seven or eight of the program. An increase to the administration fee would reduce the time and number of participants needed to break even, but that could negatively impact interest and access to HELP.

Program continuation beyond year two (or four in the FCM scenario) would therefore require mill rate or ongoing capital funding (in addition to capital for program loans) for three to six additional years before the program potentially becomes self-sustaining. Program performance at the end of the first two to four years will be assessed for future project participation rates, ongoing costs, and requests for ongoing funding. For full details of the long-term program implications, see Appendix 2 – PACE Research and Projections.

ADDITIONAL IMPLICATIONS/CONSIDERATIONS

The HELP program is anticipated to achieve:

- Positive economic benefits as this program supports the local construction and renovation economy;
- Opportunities for coordinated benefits with the provincial retrofit tax credit program;
- Greater comfort and operational efficiencies for homeowners;
- Alignment with numerous actions in the Low Emissions Community Plan. At full, future capacity (350+ homes per year) could reduce emissions by 4,687 tCO_{2e} per

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year, and 136,000 by 2050. In the first two years, with 100 participants, the initiative has the potential to avoid 308 tonnes of CO_{2e} per year; and

- Can be scaled up over time, with ability to achieve cost neutrality.

There is opportunity for this program to align with the *Saskatchewan Home Renovation Tax Credit* program which allows homeowners to claim a 10.5% tax credit on eligible home renovation expenses incurred between October 1, 2020 and December 31, 2022.

Additionally, this program could align with a proposal from the Government of Canada in the December 2020 economic statement to provide \$2.6 billion over seven years, starting in 2020-21. Natural Resources Canada is positioned to help homeowners improve their home energy efficiency by providing up to 700,000 grants of up to \$5,000 to help homeowners make energy-efficient improvements to their homes, up to one million free EnerGuide energy assessments, and support to recruit and train EnerGuide energy auditors to meet increased demand.

A Triple Bottom Line (TBL) assessment was conducted to compare the program options presented above. A summary of the TBL assessment is available in Appendix 5 - Triple Bottom Line Assessment. Overall, the TBL review indicates that all options are on track for Environmental Health and Integrity indicators:

- Options 1 and 2 are meeting expectations for Social Equity and Cultural Wellbeing. Option 3 is on track for this principle;
- Options 2 and 3 are meeting expectations for Economic Benefits, while Option 1 is on track for this principle; and
- All options are meeting expectations for the Good Governance principle. The program aims to increase energy efficiency, renewable energy and water conservation.

Legal/Policy Implications:

A Bylaw will need to be developed for the program, as stipulated by section 281.3 of *The Cities Act*. In addition, the Province may introduce regulations regarding bylaws for this type of program, which may introduce certain obligations or restrictions.

COMMUNICATION ACTIVITIES

A full summary of communications activities that were completed to support engagement on HELP are available in Appendix 1.

Communication activities in conjunction with this report included a press release, social media posts, and updates to the City's webpage. A comprehensive communications plan will be developed as part of the implementation planning in 2021, if program approval is received.

NEXT STEPS

If the recommendations are approved by City Council, a Public Notice Report will be completed in March 2020 for the internal borrowing of \$2,500,000.

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The Administration will proceed with an application to FCM's Community Efficiency Financing stream as soon as it opens (expected March 2021, decision July 2021). Until FCM funding is confirmed, the City will assume a 2-year program with a total of \$2,500,000 of loans. If the FCM grant is successful, the Administration will report back with program planning for four years with \$10,000,000 of loans and additional rebates and incentives. At that time, an additional Public Notice Report will also be completed for the additional FCM loan amount.

Bylaw development for the program will take approximately 90 days and drafting can begin as soon as direction is received from City Council. After a program bylaw is developed, an approval report will be brought back to City Council.

Concurrently, program implementation planning will begin including training staff, planning communications, developing intake and review processes, collections, software changes, and other administration.

One year after the launch, a report on the results of the HELP program will be provided to City Council in order to adjust, as necessary, to program design.

APPENDICES

1. Comprehensive Engagement Report
2. PACE Research and Projections
3. Home Energy Loan Program Design
4. FCM Funding Offer
5. Triple Bottom Line Assessment

Report Approval

Written by: Hilary Carlson, GHG Controls Specialist
Amber Weckworth, Manager, Climate, Strategy & Data

Reviewed by: Jeanna South, Director of Sustainability
Kerry Tarasoff, Chief Financial Officer

Approved by: Angela Gardiner, General Manager, Utilities & Environment

Admin Report - Options for the Design of a Home Energy Loan Program.docx