

Community Loans Programs Options and Additional Scenarios Explored

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Introduction

Property Assessed Clean Energy (PACE) programs for single-family residential and industrial, commercial, and institutional (ICI), including multi-unit residential, have been developed using the findings from the ICI Feasibility Study (Appendix 2), a review of HELP and best practices for R-PACE programming (Appendix 3).

Community Loans Program Options

Five Community Loans Program Options are:

1. HELP (R-PACE only), No C-PACE;
2. Extra-small HELP and Small C-PACE;
3. Small HELP and Extra-small C-PACE, with options for reversion;
4. Direct Lending (No PACE); and
5. No Community Energy Loans Programs.

Option 1 - HELP (R-PACE only), No C-PACE

This option includes an updated version of a single-family R-PACE program based on the current version of HELP with no PACE program for other sectors.

Table 1 provides a summary of the program details for this option with estimates of the GHG emissions reductions, the administration fees, and the number of participants as well as other considerations. Financial analysis is shown in Table 2, including that the program would use existing CEF grant funds to cover the first year of operating costs and with an administration fee of \$750/participant, the program would generate a

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surplus of \$18,500. Annual GHG reductions are estimated at 855 tonnes CO₂e once all retrofits are complete.

Table 1. Program Summary of Option 1 - HELP (R-PACE), No C-PACE

	HELP	C-PACE
Estimated Participants	342 single-family homes	No C-PACE Program
Total Loan Capital Required	\$10.5M	
Program Length	3 years	
Average Loan	\$30,000/home	
Max Loan	Standard retrofit - \$40,000/home; Net-zero \$60,000/home	
Annual GHG Reductions (full build-out)	855 tonnes CO ₂ e	
Uptake Considerations	Low Risk - Current program has high demand; however, increased administration fee may reduce demand	
Operating Costs	\$337,000	
Administration Fee	2.5% of loan or \$750/participant	

Table 2. Financial Analysis of Option 1 – HELP (R-PACE), No C-PACE

	HELP	C-PACE
Revenue	(\$355,500)	No C-PACE Program
Administration Fees	(\$256,500)	
CEF Grant	(\$99,000)	
Expenses	\$337,000	
Program Administration	\$272,000	
Marketing & Education	\$23,000	
Liens	\$31,000	
Contingency	\$11,000	
Net Cost (Surplus)	(\$18,500)	

Pros

- Momentum and awareness built with the current iteration of HELP is maintained with a program similarly sized to the existing version;
- Largest version of HELP, meaning it is closest to meeting community demand;
- Uses existing processes and staff that are continuously being improved meaning reduced risk of timeline delays or other problems with launch; and
- Program is well-known in the community and has demonstrated demand so there is low risk that it will not fill up.

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Cons

- Program will be available to single family homes only, no programming for multi-unit residential; and
- No further FCM funding can be accessed for HELP.

Option 2 – Extra-small HELP and Small C-PACE

This option includes a smaller, updated version of a single-family R-PACE program based on the current version of HELP and a C-PACE financing program targeted at up to 15 MURBs (five buildings per year). Table 3 provides a summary of the program details for this option with estimates of the GHG emissions reductions, the administration fees, and the number of participants as well as other considerations. Annual GHG reductions are estimated at 887 tonnes CO_{2e} once all retrofits are complete.

Financial analysis is shown in Table 4, including that HELP would use existing FCM grant funds to cover the first year of operating costs and that, with an administration fee of \$750/participant, the program would generate a small surplus of \$1,500 to use as a contingency. The C-PACE program would break-even with an administration fee of 1.6%, or \$7,000 per participant. If successful with a FCM grant for C-PACE, administration fees may be reduced or waived.

Table 3. Program Summary of Option 2 – Extra-small HELP and Small C-PACE

	HELP	C-PACE
Estimated Participants	118 single-family homes	15 MURBs
Total Loan Capital Required	\$3.6M	\$6.9M
Average Loan	\$30,000/home	\$450,000/building
Maximum Loan	\$40,000/standard retrofit; \$60,000/net-zero retrofit	TBD
Annual GHG Reductions (full build-out)	295 tonnes CO _{2e}	592 tonnes CO _{2e}
Uptake Considerations	Low Risk – extend the existing program participant levels with no scale up of participants.	Moderate Risk - new program with not many C-PACE programs to benchmark throughout Canada.
Administration Fee	2.5% or \$750/participant	1.6% or \$7,000/participant

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Table 4. Financial Analysis of Option 2 – Extra-small HELP & Small C-PACE

	HELP	C-PACE
Revenue	(\$124,500)	(\$105,000)
Administration Fees	(\$88,500)	(\$105,000)
FCM Grant	(\$36,000)	TBD
Expenses	\$123,000	\$105,000
Program Administration	\$96,000	\$70,000
Marketing & Education	\$10,000	\$23,000
Liens	\$11,000	\$2,000
Contingency	\$6,000	\$10,000
Net Cost (Surplus)	(\$1,500)	\$0

Pros

- R-PACE and MURB C-PACE programs would be provided; maintaining momentum built with HELP *and* targeting an additional sector that has known challenges in completing energy retrofits; and
- Ability to leverage FCM funds which may allow for lower/waived administration fees, rebates, or other ICI/MURB programming.

Cons

- Least number of single-family residential loans will be provided, potentially causing community frustration.
- Highest complexity and uptake risk as a new C-PACE program would be introduced; however, a 15-building program is still relatively small, and the administrative processes and program design would build on the learnings from HELP.
- Smallest amount of surplus projected from administration fee revenue, increasing risk that cost overruns may occur.

Option 3 - Small HELP and Extra-Small C-PACE, with Options for Reversion

This option is similar to Option 2 but with more HELP loans and less C-PACE loans. The HELP and C-PACE loans have been set as a minimum target within this option but would be flexible and adjusted based on demand within the available financing. Table 5 provides a summary of the details for this option with estimates of the GHG emissions reductions, the administration fees, and the number of participants as well as other

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considerations. Annual GHG reductions are estimated at 860 tonnes CO_{2e} once all retrofits are complete.

Financial analysis is shown in Table 6, including that HELP would use existing FCM grant funds to cover the first year of operating costs and that, with an administration fee of \$750/participant, the program would generate a surplus \$11,750. The C-PACE program would have a deficit of \$50,000 if administration fees are set at 1.6%, or \$7,000 per participant; however, FCM grant funding, if successful, could cover these fees.

Table 5. Program Summary of Option 3 – Small HELP & Extra-small C-PACE

	HELP	C-PACE
Estimated Participants	265 single family homes	5 MURBs
Total Loan Capital Required	\$8.14M	\$2.34M
Average Loan	\$30,000/home	\$450,000/building
Maximum Loan	\$40,000/standard retrofit; \$60,000/net-zero retrofit	TBD
GHG Reductions	663 tonnes CO _{2e}	197 tonnes CO _{2e}
Uptake Considerations	Low Risk– extend the existing program participant levels with no scale up of participants.	Moderate Risk - new program with not many C-PACE programs to benchmark throughout Canada.
Administration Fee	2.5% or \$750/participant	1.6% or \$7,000/participant

Table 6. Financial Analysis of Option 3 – Small HELP & Extra-small C-PACE

	HELP	C-PACE
Revenue	(\$274,750)	(\$35,000)
Administration Fees	(\$198,750)	(\$35,000)
FCM Grant	(\$76,000)	TBD
Expenses	\$263,000	\$85,000
Env. Coordinator	\$205,000	\$70,000
Marketing & Education	\$23,000	\$10,000
Liens	\$24,000	\$1,000
Contingency	\$11,000	\$4,000
Net Cost (Surplus)	(\$11,750)	\$50,000

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Contingency if FCM Funding is Unsuccessful

This option requires FCM funding to be financially feasible as administration fees would need to be \$17,000/participant (3.8% of loan amount) to break-even. If the application is unsuccessful, Administration would need to revert to Option 1 or Option 2.

Option 3a. If FCM funding is not successful, administration would revert to Option 1.

Option 3b. If FCM funding is not successful, administration would revert to Option 2.

Pros

- HELP is larger than Option 2 to help maintain momentum built with current HELP program;
- Still able to target MURBs that have known challenges in completing energy retrofits;
- Pilots a very small C-PACE/MURB program to reduce uptake risk and provide an opportunity to learn; and
- Ability to leverage FCM funds which may allow for lower/waived administration fees, rebates, or other ICI programming.

Cons

At \$7,000/building administration fee, revenue will not cover operating costs for C-PACE/MURB due to small-scale of the pilot. If FCM funding is not successful, either administration fees will need to be increased or a reversion to Option 2 will be necessary.

Option 4 - Direct Lending (No PACE)

In this option, the City would not offer any PACE loans. Instead, partnerships with local financial institutions would be sought to offer a direct lending model as seen in Durham, Ontario. Financial institutions would directly lend the funds to the participants, setting the terms for interest rates, loan length, and eligibility (including credit checks). The City would need to hold funds in a loan loss reserve to backstop the risk of default.

The City may have some discretion over program design elements such as eligible projects, but it is not known how much control the City would have over financing terms, eligible participants, and equity components for the program. More research and planning are required to pursue this scenario as there is currently no partner lending institution in place for this type of program and funding would be required for the loan loss reserve.

The total cost and size to run this type of program in Saskatoon is unknown at this time. However, if a model like the program in Durham, ON was pursued, then at least 20% of the loan capital would need to be provided in a loan loss reserve to mitigate the bank's

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risk. This means if \$42,000,000 of loan capital was provided by the bank, the City would need a loan loss reserve of \$8,400,000.

Based on the Durham example, it is expected that administration fees and interest rates could be equal to prime (currently 7.2%) plus an administration fee of 2-4%, for a total interest rate of 9.2-11.2%, which may make the program less attractive. A program like this would still need some City administration such as a 25% program manager, costing up to \$25,000 per year.

If a partner was found to offer the program, Administration would request funding for the loan loss reserve; options to fund the loan loss reserve and City administration components of this scenario include internal reserves, internal/external loans, or property taxes. The loan loss reserve would only be used in the case of defaults by the participants. Loan capital would come from the third-party (which would not impact the City's debt limit).

Pros

- Loan programs for home energy and/or multi-unit/commercial building retrofits may still be provided and potentially at a larger scale, potentially meeting community demand;
- Quantifiable GHG emissions reductions would depend on the scale of the program and could be anywhere between 855 – 3,600 tCO₂e for a R-PACE program over three years; and
- The City would not need to find loan capital for the full cost of the upfront loan funds, instead borrowing or capital would only be required for the loan loss reserve (up to 20% of loan amount).

Cons

- There is a risk that the City will not find a lending partner willing to provide loans for this type of program. If a funding partner is found, there is uncertainty around the City's role, level of control in design, and what level of administrative burden would be required.
- Loans will no longer be tied to property taxes which may increase the risk of default; it is unknown how common defaults are with this type of loan given that Durham is the first municipality with this type of program, and it has only existed for one year.
- Financial institutions are likely to have stricter eligibility criteria around creditworthiness and debt-servicing ratios which may have detrimental impact on income-qualified households that cannot meet the criteria.
- Highest cost for participants. Residents would pay higher interest rates that are closer to market rates and may pay higher administration fees.
- The City would still need to fund a loan loss reserve, typically around 20% of the total loan capital, which would only be used in the case of loan defaults.

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Option 5 – No Community Energy Loans Programs

In this option, the City would discontinue HELP by the end of 2025 after existing loan funding has been fully spent and not explore additional opportunities to offer a community energy loan program. Retrofit financing programs would be left to the private sector.

The Energy Star Portfolio Manager benchmarking tool for the ICI sector (including municipal buildings) will continue to be developed with existing funds, starting in 2024.

Additional Scenarios Explored

Administration also considered additional large-scale scenarios. These large-scale scenarios should achieve higher greenhouse gas (GHG) reductions and come closer to meeting community demand for the Home Energy Loan Program (HELP). Through scaling, efficiencies could be realized that could allow for lower per building administrative costs and the ability to introduce equity elements such as waived administration fees and financial incentives like rebates. The scenarios are not recommended as they are not feasible with current funding limitations.

Scenario 1 - Large-scale HELP Extension & Small-scale C-PACE Program for MURBs

This scenario includes an updated and scaled-up version of a single-family residential PACE program based on the current version of HELP with a C-PACE program for Multi-unit Residential Buildings (MURB).

Table 8 provides a summary of the details for a three-year program. The program would require \$51.1 M in loan capital and would need to charge administration fees of \$701 for HELP and \$7000 for C-PACE to break-even, assuming no external grant funding is used to cover administration costs. The scenario could reduce annual emissions by over 4,000 tonnes CO_{2e} once all retrofits are complete.

Equity measures are not included but could be introduced if higher administration fees were charged or if external grants were accessed. For example, raising administration fees to \$750 per HELP participant would raise approximately \$350,000 in additional revenue that could be used for rebates or to waive administration fees.

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Table 7 - Summary of Program Details – S1: Large-Scale HELP Extension & Small-Scale C-PACE Pilot Program for MURBs

	Program Details HELP	Program Details C-PACE
Target Participants	1,440 single-family homes	15 MURBs
Total Loan (\$)	\$44.3 M	\$6.9 M
Average loan	\$30,000	\$450,000
Annual GHG Reductions	3,600 tonnes CO ₂ e	592 tonnes CO ₂ e
Equity Measure	None.	Targets the MURB sector. Helping to reduce utility costs for underrepresented community. Waived or reduced admin fees and rebates can be designed into the program.
Risks and Complexity	Moderate uptake risk and increased complexity – program would require more staff or to be run by a third party and may require implementation of software to handle volume of applicants.	Moderate uptake risk and high complexity - New program, not many C-PACE programs to benchmark. Very low repayment risk.
Administration Fee	2.3% of loan amount or \$701/participant	1.6% of loan amount or \$7,000/participant

Scenario 2 - Large-scale HELP Extension & Full-scale C-PACE Program for ICI/MURB Buildings

This option includes an updated and scaled-up version of a single-family residential PACE program based on the current version of HELP with a large-scale C-PACE program for MURBs and commercial buildings.

Table 9 provides a summary of the program details for a three-year program. The program would require \$85.2 M in loan capital and would need to charge administration fees of \$701 and \$4389 for HELP and C-PACE respectively to break-even, assuming no external grant funding is used to cover administration costs. The scenario could reduce annual emissions by over 17,000 tonnes CO₂e once all retrofits are complete.

Equity measures are not included but could be introduced if higher administration fees were charged or if external grants were accessed. For example, raising administration fees to \$750 per HELP participant would raise approximately \$350,000 in additional revenue that could be used for rebates or to waive administration fees; while raising C-PACE administration fees to \$7000/participant would raise approximately \$235,000 for equity measures.

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Table 8 – Summary of Program Details – S2: Large-Scale HELP Extension & Full-Scale C-PACE Program for ICI/MURB Buildings

	Program Details HELP	Program Details C-PACE
Target Participants	1,440 single-family homes	90 MURBs and/or commercial buildings
Total Loan	\$44.3 M	\$40.9 M
Average Loan	\$30,000	\$450,000
GHG Reductions (Tonnes of CO ₂ e)	3,600 tonnes CO ₂ e	13,685 tonnes CO ₂ e
Equity Measure	None.	Includes MURBs as well as commercial buildings
Risks & Complexity	Moderate uptake risk and increased complexity – program would require more staff or to be run by a third party and may require implementation of software to handle volume of applicants.	High uptake risk and high complexity. New program, not many C-PACE programs to benchmark.
Break-even administration fee	2.3% of loan amount or \$701/participant	0.98% or \$4,389