

# Bylaw 19144

## Clean Energy Improvement Pilot Program

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### Recommendation:

1. That Bylaw 19144 be given the appropriate readings.
2. That up to \$659,000 from the Planning and Environment Services branch operating budget, to fund costs for the Alberta Municipal Services Corporation (AMSC) program administration, beginning in 2021 and for the duration of the pilot, be approved.
3. That the terms of the financing agreement between the City of Edmonton and Federation of Canadian Municipalities, for an amount not to exceed \$8,434,400, as outlined in Attachment 3 of the August 19, 2021, Urban Planning and Economy report UPE00760, be approved, and that the agreement be in form and content acceptable to the City Manager.
4. That the terms of the financing agreement between the City of Edmonton and the Clean Energy Improvement Property Owner, as outlined in Attachment 4 of the August 19, 2021, Urban Planning and Economy report UPE00760, be approved, and that the agreement be in form and content acceptable to the City Manager.

### Purpose

This bylaw will:

1. Establish a Clean Energy Improvement Program in Edmonton.
2. Allow Administration to borrow funds for the purpose of financing the Clean Energy Improvement Pilot Program approved participant.

### Readings

Bylaw 19144 is ready for three readings after the public hearing has been held. A majority vote of City Council on all three readings is required for passage.

If Council wishes to give three readings during a single meeting, then prior to moving third reading, Council must unanimously agree “That Bylaw 19144 be considered for third reading.”

### **Advertising and Signing**

This Bylaw was advertised in the Edmonton Journal on Friday, June 11, 2021 and Saturday, June 19, 2021 fulfilling the statutory requirements of the Municipal Government Act (MGA) requirements.

### **Position of Administration**

Administration supports this Bylaw.

### **Report Summary**

Reducing greenhouse gases emitted by buildings is key to reaching the goals in Edmonton's Community Energy Transition Strategy and The City Plan. One initiative proven in other jurisdictions to support building emissions reduction is Property Assessed Clean Energy (PACE), an innovative financing tool for energy efficiency and renewable energy improvements. In January 2019, the Government of Alberta passed legislation that enables municipalities to participate in a PACE-like program. The Alberta program is titled the Clean Energy Improvement Program (CEIP). This program leverages a financing mechanism that provides property owners access to low-cost, long-term financing for energy efficiency and renewable energy projects. The financing is provided by the municipality in which the property is located, and a clean energy improvement tax is added to the property's tax account until the financing is repaid over a predetermined number of years. To participate in the program, property owners must have a good tax payment history with the municipality. They are also required to advise their mortgage holders, if applicable, of the tax, as well as a future purchaser if the property is sold.

The bylaw (Attachment 1) allows Administration to establish a Clean Energy Improvement Program in Edmonton and to allow the City to borrow funds that enable the financing to property owners. Benefits of this financing program in other jurisdictions have included greenhouse gas reductions, various forms of economic stimulus and health benefits.

### **Background**

The *Municipal Government Act* (MGA) was updated in January 2019 and enabled the Clean Energy Improvement Program (CEIP) with the passing of the Clean Energy Improvements Regulation.

These legislative changes designated a CEIP Administrator (Alberta Municipal Services Corporation or AMSC) to provide services to participating municipalities. This Administrator would manage applications, disburse financing and connect contractors with building owners (including consumer protection measures). A Master Program

Agreement (the terms are set out in Attachment 2) details the obligations of the Administrator and the municipality. While an Administrator will provide services to the City of Edmonton in running the program, a financing agreement will be executed between the applicant (property owner) and the City of Edmonton and will detail the financing totals and repayment details. The terms of the financing agreement are found in Attachment 4.

Administration pursued the Federation of Canadian Municipalities Green Municipal Fund (FCM GMF) programs and were successful in securing FCM's approval for a potential loan of \$8,434,400 and grant of \$1,264,500, which was announced December 15, 2020. Before this loan can be finalized and paid out, the CEIP Bylaw must be passed and the form and content of the financing agreement must be acceptable to the City Manager. The terms of the FCM GMF/City of Edmonton Agreement is Attachment 3.

This financing program is a tool to reduce greenhouse gas emissions in Edmonton and one of initiatives identified in the recently updated Energy Transition Strategy with the potential to catalyze energy efficiency retrofit investment in privately owned buildings. The benefits of the Clean Energy Improvement Program include but are not limited to:

- Greenhouse gas reductions;
- Energy utility cost savings;
- Local job creation and capacity building;
- Regional economic development;
- Investment in local infrastructure renewal;
- Improved citizen comfort in their homes and workplaces; and
- Public health benefits and healthier buildings.

The program budget is forecast at \$12.37 million and includes the loan and grant award from the Federation of Canadian Municipalities Green Municipal Fund, along with operating budget and funds from existing complementary Environment and Climate Resilience rebate programs.

Per million dollars of direct stimulus to the building construction industry, the local job creation potential for this CEIP pilot ranges between 6.8 and 7.3 private sector jobs<sup>1</sup> over the duration of the program. This translates to between 66 and 71 jobs based on an assumed investment of \$9,698,900.

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<sup>1</sup> Statistics Canada. Table 36-10-0113-01 Input-output multipliers, provincial and territorial, summary level; jobs impact refers to the sum of the direct, indirect, and induced jobs multipliers per million dollars of output for the non-residential and residential building construction industries in Alberta.

### Budget/Financial Implications

At the time of report writing, negotiations for cost and service are not complete. The maximum cost for AMSC program Administration that City of Edmonton could consider based on projections is:

- \$659,000, which includes \$474,000 for Legislated Administration fees (calculated at the maximum of 5 percent of financing of \$9,698,900) + \$175,000 (maximum cost of optional services fees/services provided by AMSC).

If this maximum fee is realized and accepted by City Administration, the total Program Administration is \$1.214 million (\$659,000 + \$555,000).

For the two year pilot program, the projected total program budget, subject to finalizing negotiations totals \$12.37 million. This includes:

- Retrofit Investment: \$11.25 million  
FCM Financing: \$9,698,900 (Loan of \$8,434,400 and Grant of \$1,264,500)  
City of Edmonton Rebates: \$1.55 million
- Expected Program Administration: \$1.12 million  
City of Edmonton Resources: \$555,000  
AMSC Administration: \$565,000
- Administration Fee Revenue: \$145,000 (maximum estimate based on 1.5 percent of total Financing) is collected from Participants to partially offset program administration costs as permitted under the Regulations. This Administration fee revenue is limited to 5% of capital financed, which will not be known until the pilot is complete.

Resources from City Environmental Strategies, Finance, Tax, Communications and Legal Services will be leveraged to support the effective administration of the project outside of the services that the Program Administrator, Alberta Municipal Services Corporation (AMSC)<sup>2</sup>, will provide. The value of these City resources is projected at \$555,000. The services of AMSC to administer the program, on behalf of City of Edmonton, are forecast at \$565,000 for a combined total of \$1,120,000 in program costs that will be absorbed by the City of Edmonton over the two year pilot.

The FCM grant of \$1.2 million can be used to address costs, including program administration costs, incurred by the City of Edmonton in the implementation of this pilot program. This grant however, is collected during the repayment of financing and

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<sup>2</sup> The Alberta Municipal Services Corporation (AMSC) wholly-owned subsidiary of the Alberta Urban Municipalities Association (AUMA)

will be collected over the duration of repayment which may be up to 20 years depending on the useful life of the retrofit (eg. Solar P.V. Installation has a lifespan of 20+ years).

If the project extends past the pilot and is implemented on a go forward basis, an additional cost of up to \$700,000 will be needed to upgrade the Tax, Assessment and Collections System (TACS).

The Clean Energy Improvement Program pilot program will be financed through the Federation of Canadian Municipalities Green Municipal fund. The program provides owners of residential and non-residential properties access to low-cost, long term financing for energy efficiency projects to their property, which will be paid back through a clean energy improvement tax on the benefiting property. The clean energy improvement tax revenue collected on CEIP benefitting properties will be used to fund the City's principal and interest payments on the financing from FCM. Borrowing will be for up to 20 years.

### Legal Implications

Bylaw 19144 would allow the City to both set up a CEIP program and to borrow money to a maximum of \$8,434,400. Bylaw 19144 must meet the requirements of Section 390.3 of the *Municipal Government Act* and section 5 of the *Clean Energy Improvements Regulation*. Should the funding allowed under this Bylaw be fully used, and there was a desire to continue with the program, a new CEIP borrowing/ taxation bylaw would need to be passed to allow additional borrowing. The Bylaw must be advertised and go through a public hearing before third reading.

### Corporate Outcomes and Performance Management

Corporate Outcome(s): Edmonton is an environmentally sustainable and resilient city			
Outcome(s)	Measure(s)	Result(s)	Target(s)
Edmonton is environmentally sustainable with continually reduced greenhouse gas emissions	Community greenhouse gas emissions	17,216,000 tonnes of carbon dioxide equivalents (2019). A decrease of 5.7% below 2005	35% below 2005 levels (11,861,000 tonnes of Carbon Dioxide equivalents by 2035)

### Risk Assessment

Risk Element	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations
Commercial	Program Administrator fails to deliver	3 - Possible	1-Minor	3- Low	Program launch will be pilot scale with only	Prior to program expansion, the long term viability of the

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					residential and commercial versions offered within one year of original launch once certainty of partner future is ascertained.	partner will be examined.
Fraud	Poor financial controls result in fraud / financial loss	3 Possible	2-Moderate	6- Medium	Pilot scale with multiple confirmation points with each applicant file. Thorough end to end applicant review.	Prior to program expansion, adjustment of the review process as necessary.
Financial	Applicants fail to repay financing through their clean energy improvement tax and default.	1-Rare	1- Minor	1- Low	Applications include documentation on financial health and strong enforcement mechanisms exist to recover unpaid property tax.	Review of pilot will identify if additional financial health details would reduce this risk to City of Edmonton. Program costs could be increased to incorporate recovery of these additional administrative costs.
Customers /Citizens	Applicants whose mortgage does not permit secondary financing may have their mortgage called in.	2-Unlikely	2-Moderate	4- Low	Applicants must confirm they have received consent where a mortgage is held on subject property. The City of Edmonton requires a clean five year tax payment history and the program limits the annual financing payment to be limited to the last annual tax payment when someone replies.	Include a condition on the application form and in the Program Terms and Conditions that an energy efficiency / renewable energy improvement will not proceed without confirmation that the mortgage lender consents.

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Customers /Citizens	Property owners with CEIP financed retrofits (e.g. Solar installation) that fraudulently remove these installations upon property sale. The City's reputation could be at risk for offering a program where this might occur.	1-Rare	2-Moderate	2- Low	<p>Eligible retrofits must be installed on the property. This eliminates portable versions from the program to minimize this threat.</p> <p>The program requires sellers to share a copy of any active CEIP agreement to any future purchase agreement. Failure to do so is a legal matter between buyer and seller.</p>	Prior to program expansion, review of eligible retrofit investments to minimize the potential of this scenario will be undertaken.
Financial	Controlling total carrying charges that the City of Edmonton must bear as part of the expense of offering this program. (An estimate of \$60k/year for each of the two years of the pilot program- using 2.5% interest rate, 6 month carrying cost for \$9.7M).	3-Possible	2-Moderate	6- Medium	<p>The pilot total financing is limited to \$9.7M and applicant projects must be completed within 6 months for residential, 12 months for commercial. Borrowing events will occur as close to financing payout as possible. Administration fees of 1.5% will be applied to partially offset all costs incurred. Program Administration costs can be recovered by the FCM-GMF grant award of \$1.2M.</p>	Upon review of the pilot, borrowing practices will be reviewed to ensure the lowest cost options are employed.
	Negotiations are not completed at the time of this report. The bylaw can be passed, but may require amendments after the fact, which could require another public hearing process.	2-Unlikely	3-Possible	6- Medium	<p>Engagement with the contracting parties, as well as written confirmation of terms needed for the bylaw.</p>	Upon continuation of negotiations, all efforts will be made to not require amendments to the bylaw.

Risk if bylaw NOT approved						
Risk Element	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations
Public Perception	Not mobilizing private property owners to reduce GHG emissions/increase on site renewable energy generation.	3-Possible	3-Possible	9-Medium	Range of active/planned energy transition initiatives underway.	Energy Transition initiatives are planned for years into the future and range from education/incentives to regulation.
Financial	Delay of a return to Council until Q3, 2021. Program Agreements may have to be renegotiated depending on the reason for non-approval.	3-Possible	3-Possible	9-Medium	Resources have been applied to result in an agreement that satisfies both parties to minimize the likelihood of a desire revisiting the agreement.	Clarity and direct feedback will be needed from Council for Administration to make the changes necessary to the bylaw to ensure it can be passed on a second attempt.

## Attachments

1. Bylaw 19144 Clean Energy Improvement Pilot Program Tax Bylaw
2. Terms of Master Agreement between COE and AMSC
3. Terms of Borrowing Agreement between the City of Edmonton and Federation of Canadian Municipalities
4. Terms of Financing Agreement between the City of Edmonton and the Clean Energy Improvement Property Owner

## Others Reviewing this Report

- M. Persson, Chief Financial Officer and Deputy City Manager, Financial and Corporate Services
- C. Owen, Deputy City Manager, Communications and Engagement
- K. Fallis-Howell, Acting City Solicitor