

BYLAW 20678 - To Implement the Clean Energy Improvement Program

Recommendation

1. That Bylaw 20678 be given the appropriate readings.
2. That the terms of the Master Program Agreement, between the City of Edmonton and Alberta Municipal Services Corporation (AMSC), for an amount not to exceed \$1,600,000, as outlined in Attachment 3 of the May 13, 2024, Urban Planning and Economy report UPE02134rev, be approved, and that the agreement be in form and content acceptable to the City Manager.

Purpose

- To establish a permanent Clean Energy Improvement Program in Edmonton.
- To allow Administration to source funds for the purpose of financing the Clean Energy Improvement Program.

Readings

Bylaw 20678 received first reading on February 12, 2024, and will be ready for second and third readings after the public hearing has been held.

Advertising and Signing

This bylaw was advertised in the Edmonton Journal on Friday, February 16, 2024, and Friday, February 23, 2024, fulfilling the statutory requirements of the *Municipal Government Act*.

REPORT

The Clean Energy Improvement Program (CEIP) is a financing tool to promote energy efficiency and renewable energy upgrade investment on privately owned buildings. The CEIP's \$20 million of funding has the potential to directly support up to 80 person-years in the building construction sector.¹ This program provides property owners access to financing to make energy efficiency

¹ Person-years is a measurement of the labour requirements expressed in one-year of labour activity from one employee. For example, output that requires 1,000 people employed full-time for one year would have

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upgrades or add renewable energy installations to their properties. The financing is then repaid by the property owner through property taxes. A draft bylaw for the permanent program is provided in Attachment 1. At the February 12, 2024 Special City Council meeting, Bylaw 20678 was read for the first time.

Strategic Context for CEIP

ConnectEdmonton sets the direction for Edmonton's future and outlines where the City needs to change today to realize the vision for Edmonton in 2050. ConnectEdmonton's goal of Climate Resilience includes a city transitioning to a low-carbon future.

The Community Energy Transition Strategy describes the path forward for a low carbon city and focuses on an equitable energy transition. One pathway in the Energy Transition Strategy is "Emission Neutral Buildings" as 39 per cent of Edmonton's greenhouse gas (GHG) emissions are from residential and commercial buildings. The Energy Transition Strategy identifies a Clean Energy Improvement Financing Program as a "Big Win" action. The City has a strategy to cut Edmonton's emissions in half by 2030 and achieve carbon neutrality by 2050—at the same time as the city adds another million people to its population (The City as a corporation has a goal of reaching net zero by 2040.)

Pilot Program

In March 2022, the City of Edmonton launched a residential property CEIP pilot. The City then launched a non-residential property CEIP pilot in June 2022. The residential stream was fully subscribed. All CEIP programs in Alberta are delivered by Alberta Municipalities, as required by ministerial order². Edmonton's CEIP pilot provided financing to property owners to complete a minimum of three energy efficiency and/or renewable energy upgrades to residential and non-residential buildings.

The maximum pilot funding was \$12,263,900. Details of the maximum program funding sources are listed below:

- Federation of Canadian Municipalities (FCM) Green Municipal Fund Loan: \$8,434,400
 - This loan is payable over 20 years and repayment began in December 2022.
- FCM Grant: \$1,264,500
- City of Edmonton Existing Rebate Program Contributions: \$1,551,100
- City of Edmonton Funding for internal resources and the administration fees to Alberta Municipalities: \$1,013,900

In the original pilot budget, \$10 million was reserved for non-residential projects and \$1.25 million was reserved for residential projects. After the number of non-residential applicants received was less than forecasted, Administration redistributed the available funds to the residential sector to meet the demand of residential applicants. The residential stream was

the same person-year labour requirements (1,000) as output that requires 1,000 people employed full-time for the first six months of the year and a different 1,000 people employed the last six months of the year, or output that requires 500 people employed full-time for two years.

² Government of Alberta. Ministry of Environment and Parks. Ministerial Order 34/2021: Clean Energy Improvements Program Administrator. February 11, 2021.

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relaunched on August 22, 2023. This program iteration allowed applicants to access the remaining FCM funds with a 3.16 per cent fixed interest rate with up to 20-year repayment periods.

As of February 14, 2024, progress on projects includes:

- 91 active residential files with a projected retrofit value is \$3,191,063. Of this total, 28 projects have completed construction. The average residential project financing is \$35,067.
- Webinars delivered in advance of the August 22, 2023 residential relaunch to better support potential applicants have had a positive impact. These additional efforts have increased applicants' understanding of the program and eligibility, which has reduced project approval times from a minimum of 12 weeks in the first residential wave to four weeks for the August relaunch applicant files.
- Four active non-residential projects resulted in a total projected value of \$3,115,000. Of these, one project has completed construction to Net Zero with a total value of \$1 million.

The pilot provided an opportunity for Administration to evaluate how processes and program design impact applicant success. Pilot program lessons and findings from similar Canadian initiatives helped inform the development of a permanent program (Attachment 2).

Permanent Program Development

Following the success of the pilot, Administration is establishing a permanent CEIP to launch in mid 2024. The permanent CEIP program incorporates the learnings described in Attachment 2.

The permanent program will continue to contract Alberta Municipalities as the administrator of all Alberta CEIP programs. A new Master Program Agreement (the material terms are set out in Attachment 3) details the obligations of the Administrator and the municipality, and will need Council approval based on the value of the agreement. While this Master Program Agreement between Alberta Municipalities and the City of Edmonton sets out the relationship needed to run the program, a separate financing agreement will be executed between the applicant (property owner) and the City of Edmonton to detail the financing totals and repayment details.

The City of Edmonton uses Taxation, Assessment and Collections System (TACS) software to support property assessment, tax levy and tax collection processes. In the pilot program, application processing was done through a manual process as specific CEIP data could not be automated and integrated using existing system capabilities. To support the scaled up program, TACS will be upgraded in April 2024.

The financing required for the permanent program is estimated at \$20 million from 2024 to 2027. This \$20 million will support approximately 300 residential and 16 non-residential projects. Administration will “gate” applications to facilitate a steady pipeline of projects at various stages. Should the demand for CEIP funding exceed the planned amount, Administration will return to Council for direction. Regular updates will be provided to Council following the launch, if the program is approved.

The permanent program will implement a few changes to address gaps found through engagement, detailed in Attachment 2 (e.g., advanced funding for deposits on residential

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contractor services, removal of five-year ownership requirements and a new coaching service). In addition, financing cannot exceed the property's annual property taxes, excluding the City of Edmonton administration fee (set at 1.575 per cent) and the interest cost of borrowing, which varies (maximum value of \$1,015,750 plus interest). The permanent program will continue this practice.

The City continues to work towards securing a permanent program financing source. Administration has been in discussions with the FCM and other banking institutions to understand potential financing arrangements. In the interim, the program will be initiated in Q2 2024 using funds from the City's short-term investment methods, such as money market or short-term bond funds. These funds are commonly employed for managing the City's daily operational needs and short-term obligations. Administration considered a cash flow perspective and found that there is little risk in using these short-term investment funds to initiate the program. However, when not tied to third party borrowing, the process of setting an interest rate is not clearly defined in the regulation.

Advocacy to the Government of Alberta

The City of Edmonton put forward the following suggested improvements in a resolution to Alberta Municipalities in September 2023, which was seconded by Lethbridge and the Town of Athabasca, and supported by 76 per cent of members. These improvements included:

1. Make borrowing for CEIP eligible under the *Local Authorities Capital Financing Act*;
2. Allow residential building financing for multi-unit buildings, including condominiums, to be equivalent to the non-residential investment limit;
3. Increase the maximum financing limit for residential properties, which is currently set at \$50,000 or no more than double the municipal property taxes, whichever is less;
4. Increase the maximum financing limit of \$1 million for non-residential properties; and
5. Expand eligible items to include additional clean energy and adaptation upgrades such as, but not limited to, electric vehicle chargers, while allowing municipalities to retain the ability to choose which elements of an expanded program to offer.

The approved resolution was provided to the Government of Alberta for response. The Government of Alberta responded in December 2023, noting that CEIP financing limits were established to protect consumers from overleveraging borrowing on their property, consideration should be given to multi-residential buildings regarding mechanisms for repayment, and noting the list for eligible projects was intended to be modified moving forward.

Next Steps to Launch Permanent CEIP

Administration anticipates a target launch date of Q2 2024. The concurrent next steps include:

- Second and third readings of the permanent CEIP Bylaw at City Council.
- Approval of the terms of the Master Program Agreement with Alberta Municipalities to allow Administration to execute the agreement.
- Finalize and publish updated terms and conditions for Permanent CEIP.
- Continue advocacy to improve and update provincial CEIP regulation.

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Community Insight

Administration developed a public engagement plan to seek stakeholder feedback, identify barriers or gaps to participation, and potential solutions to address. The engagement included residential applicants, contractors, and active and potential non-residential applicants.

Administration collected initial feedback using a variety of engagement activities, including one-on-one interviews, feedback sessions, email correspondence and an Insight Community survey. Initial feedback highlighted three areas to consider for program enhancement, including:

- Program complexity: To better understand the program, participants may require more education, accessibility and coaching
- Deposits: Smaller contractor organizations request that Administration allow advances for contractor deposits. This change may support cash flow and equity across the market.
- Administration Fee: The administration fee is low and any cost savings are appreciated by applicants.

To continue to improve and enhance the program, Administration will continue to solicit feedback from applicants.

Budget/Financial Implications

Start-up implementation costs for the permanent CEIP are projected to be \$1.8 million and include pre-launch activities such as program design, promotions and communication. Program costs of \$1.0 million is required annually from 2024 to 2027 and include the administration fee for the Program Administrator (Alberta Municipalities) of \$0.4 million and \$0.6 million for internal resources. The total program costs of \$5.8 million will be funded within the approved 2023-2026 base budget. The amount included in Recommendation 2 of up to \$1.6 million (\$0.4 million for 4 years) is to enter into the Master Program Agreement with Alberta Municipalities.

The financing of \$20 million from 2024 to 2027 for the permanent CEIP to support residential and non-residential projects requires a new bylaw to allow for future borrowing but does not approve any immediate borrowing from any one particular source. The bylaw in this report also contemplates the possibility of financing the program through existing revenue sources. In the interim, the program will be initiated in 2024 using funds from the City's short-term investment vehicles, such as money market or short-term bond funds. A borrowing recommendation will be presented, if needed, for Council consideration should a longer term financing source be identified.

Regardless of the financing source for the Clean Energy Improvement Program, the loan to the property owner is repaid through their property taxes.

Legal Implications

A Bylaw is needed to launch the CEIP program, and it must meet the requirements of section 390.3 of the *Municipal Government Act* and section 5 of the Clean Energy Improvements Regulation. A draft bylaw for the permanent program is provided in Attachment 1 and has received first reading, been advertised, and undergone a 60-day petition period as required by

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legislation. After the public hearing, the bylaw may receive second and third reading if Council chooses to proceed.

Attachments

1. Bylaw 20678 - Clean Energy Improvement Program Tax Bylaw
2. CEIP Pilot Learned Lessons
3. Terms of the Master Program Agreement
4. Confidential Term Details for Master Program Agreement (PRIVATE)

Others Reviewing the Report

- C. Taylor, Acting Chief People Officer and City Solicitor