Federal and Provincial Grant Funding Landscape

Grants

With financing and investment strategies for the City's climate change work addressed in Attachment 5, this section provides an overview of the federal and provincial grant funding landscape, and some of the opportunities and challenges of moving the City's Energy Transition Strategy forward. Grants are a key capital funding source for the organization. In the current 2019-22 capital budget cycle, approximately 40 percent of our capital program is contingent on grants from the federal and provincial governments. Significant federal funding is delivered through the Federal Gas Tax Fund, the Investing in Canada Infrastructure Program and the Building Canada Fund. The Municipal Sustainability Initiative, the Municipal Stimulus Program and Investing in Canada Infrastructure Program match funding provide the bulk of provincial funding. Given our reliance on partner funding and with municipal revenues unable to keep pace with civic investment needs and priorities, fully optimizing and leveraging available grants to fill this gap will continue to be important.

Federal Funding

In December 2020, the federal government released a strengthened Climate Plan, titled *A Healthy Environment and a Healthy Economy*. The plan builds on the work done to date and underway through the Pan-Canadian Framework to exceed Canada's current 2030 greenhouse gas target of reducing emissions by 30% below 2005 levels. The government's new goal is to establish the building blocks to build a cleaner, more competitive and resilient economy and get Canada to net-zero emissions by 2050.

In order to bring the net-zero emissions goal into reality, municipal governments will likely require funding support specifically for climate mitigation and adaptation on the same scale as funding provided through the federal Investing in Canada Plan. Without a similar funding commitment of this magnitude that includes a significant up-front grant investment, it will be a challenge for the City to move forward on realizing its own climate strategies.

To date, federal Budgets 2016 and 2017 have provided the most funding support for these goals. In particular, Budget 2017 introduced the Investing in Canada Plan (2016-2028), a 12 year slate of programming that provides over $180B in funding nation-wide. The Plan commits $90B in new, dedicated funding in the following areas: public transit, green infrastructure, social infrastructure, trade and transportation, and rural and northern communities. The remaining $90B flows through existing infrastructure programs, such as the permanent Federal Gas Tax Fund (GTF), which provides over $2B a year to municipalities for addressing a broad cross-section of infrastructure needs. Although the City's annual GTF funding grows incrementally with inflation, a significant portion of our allocation continues to be earmarked for South LRT (to Century Park) debt servicing until 2030.

The Investing in Canada Plan is almost halfway through its term and the majority of the federal funding has been committed. In Alberta, approximately two-thirds of the infrastructure funding provided to the province through the Investing in Canada Infrastructure Program (ICIP) component of the Investing in Canada Plan has been allocated and approved for public transit infrastructure projects. A total of $1.47B has been earmarked for Edmonton's LRT network expansion. Given the significant investment in public transit, there is limited opportunity for the City to access additional federal investment under the Investing in Canada Plan to support other green initiatives.

The Canada Infrastructure Bank (CIB) was created in 2017 as a separate component of the Investing in Canada Plan and presents another opportunity to secure financing for municipal infrastructure projects. The Bank's purpose is to leverage its $35B endowment to attract private capital and co-invest with private-sector and institutional investors in new, revenue generating infrastructure projects that might not otherwise be built or would not be built with private sector involvement.

The CIB does not provide grant funding and is not intended to replace existing infrastructure funding models, such as grants and P3s, but rather seeks to complement and expand these models by providing another option to help structure and finance new infrastructure projects. CIB's focus is specifically in the areas of public transit, green infrastructure, trade and transport, broadband, and clean power. More recently they have rolled out priority investment initiatives, such as zero emission bus and building energy retrofits programs, as part of the federal government's strengthened actions of the Climate Plan. There may be opportunities for the City to work with the CIB to move forward initiatives like zero-emission vehicles, LRV procurement and on clean energy to advance our district energy projects. The City is currently engaging with the CIB to determine if it is financially viable to utilize one or both of these programs to support the

City's climate change goals. Funding provided through these programs will impact the City's debt limit. As such, leveraging these programs would be advisable only where lending rates are more favourable than traditional borrowing and/or where these programs offer less risk than traditional borrowing options.

Most recently, the federal government has committed to providing an additional $5.9B nationally to new public transit infrastructure and to establishing a $3B per year permanent Public Transit Fund beginning in 2026-27. This funding cannot be used to support other types of energy transition projects because it is focused solely on public transit infrastructure, including funding planning activities for transit projects, developing active transportation (i.e., bike lanes and walking paths), and purchasing zero emission vehicles.

The Federation of Canadian Municipalities' (FCM) Green Municipal Fund (GMF), funded through federal endowments, also supports climate change mitigation and energy transition projects. The GMF typically provides low-interest loans to municipalities to a maximum of $10M and grants up to 15% of the loan amount to a maximum of $1.5M. The GMF Community Efficiency Financing Program stream is a $300M initiative that helps municipalities deliver energy efficient financing programs. Under this program, the City's two-year Clean Energy Improvement Program (CEIP) pilot program has been approved for a loan in the amount of up to $8.4M combined with a grant in the amount of $1.3M for a total of up to $9.7M.

The majority of funding provided through the FCM programming is modest in nature and in the form of repayable loans. As the City has access to favourable lending rates through the Alberta Capital Finance Authority, these opportunities need to be evaluated on a project by project basis to determine whether the terms of the financing is appropriate for the City. The FCM also provides advocacy on behalf of municipalities and has petitioned the federal government to double the annual allocations municipalities receive under the GTF. Such a top up in funding could provide municipalities with added financial resources to prioritize and undertake climate change mitigation and energy transition projects.

As the City's climate change goals are closely aligned with the Pan-Canadian Framework and the Climate Plan, the federal government is likely to be our first provider of support, but it is not clear whether significant, new funding is forthcoming in the short-term. Beyond the need for federal funding support, realizing the City's goals will also require partnerships with the provincial government and industry.

Provincial Funding

From 2015-2019, the Provincial Climate Leadership Plan supported a number of grant programs that aligned with federal and municipal energy transition goals and were funded by the Provincial Carbon Tax. However, in 2019, the Carbon Tax was repealed and the Climate Leadership Plan was abandoned. As a result, the primary source of provincial funding specifically targeting climate change mitigation and energy transition was lost. The current provincial government made a platform commitment to release a Climate Strategy, but the release date is unknown at this time.

The provincial Technologies to Reduce Carbon Emissions (TIER) system took effect on January 1, 2020, and replaced the previous approach to pricing carbon pollution for industry. In fall 2020, the Province committed $750M under the TIER system for new and cleaner Alberta-based technologies that reduce emissions, like improved oil sands extraction methods and research and investment in carbon capture, utilization, and storage. In addition, a portion of this funding is intended to be used to reduce Alberta's deficit and support the Province's energy war room, which is now incorporated as the Canadian Energy Centre.

The TIER program has recently directed funding to support smaller grant programs that are competitively awarded, include smaller amounts of funding per project, target specific climate change goals, and are typically far oversubscribed. For example, the Province recently directed $100M of TIER funds towards the new, $150M Emissions Reduction Alberta: Shovel-Ready Challenge program. This program supports companies ready to implement leading-edge technologies in applications for both greenfield and brownfield operations, up to a maximum of $15M per project with a minimum request of $2M.

In recent years, the Province has committed $1.47B for Edmonton's LRT network expansion, as match funding for the federal ICIP and a requirement of the Bilateral Agreement signed between the Governments of Canada and Alberta under this program. The Province, however, does not currently provide funding support directly to municipalities through a significant grant program to address their climate change needs. Where provincial funding support is available for the City to access, it is typically short-term funding for smaller-scale initiatives (ie: funding that flows through Emissions Reduction Alberta, the Municipal Climate Change Action Centre, and Alberta Innovates).

Without targeted programs that could provide cost-sharing support for these goals and to compliment the new federal programs (e.g. new public transit funding), the Province could direct municipalities to existing funding sources, such the current Municipal Sustainability Initiative (MSI) and the Local Government Fiscal Framework (LGFF), which will replace MSI in 2024/25. MSI is already committed to existing priorities, and the LGFF will be a necessary funding source for our core infrastructure needs currently funded through MSI. The LGFF is also based on revenue sharing and is legislated to increase at half the rate of provincial revenue increases. As a result, given the province's current fiscal situation, the LGFF may not provide significant funding to support these goals in the near future.

In this case, the City may need to reassess priorities and determine how the City budget can support energy transition initiatives. At the same time, advocacy by the City and municipal partners will be necessary to get these priorities higher up on the Provincial agenda so that funding is reflected in the province's capital planning and set aside in provincial budgets.