

<b>TO:</b>	<b>CHAIR AND MEMBERS CIVIC WORKS COMMITTEE MEETING ON FEBRUARY 21, 2017</b>
<b>FROM:</b>	<b>JAY STANFORD, M.A., M.P.A. DIRECTOR, ENVIRONMENT, FLEET &amp; SOLID WASTE</b>
<b>SUBJECT</b>	<b>UPDATE: LOCAL IMPROVEMENT CHARGES (LICs) FOR ENERGY EFFICIENCY (CONSERVATION) IMPROVEMENTS</b>

<b>RECOMMENDATION</b>
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That, on the recommendation of the Director of Environment, Fleet and Solid Waste, the:

- a) Civic Administration **BE DIRECTED** to revise the timeline for preparing a business case for an energy-related private property LIC pilot project in London until further details on funding and incentives of the Ontario Climate Change Solutions Deployment Corporation are known and report back with an update and/or the Business Plan by September 2017; and
- b) Civic Administration **BE DIRECTED** to provide input and recommendations regarding the potential to incorporate Local Improvement Charges (LICs) in to the services of the future Ontario Climate Change Solutions Deployment Corporation (i.e., "Green Bank") and report back on outcomes in a future Committee Report.

<b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b>
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Some relevant reports that can be found at [www.london.ca](http://www.london.ca) under City Hall (Meetings) include:

- Ontario's Climate Change Action Plan – Initial Impact and Alignment with London's Current Plans, Programs and Projects (August 22, 2016 meeting of the Civic Works Committee, Agenda Item #14)
- Update: Local Improvement Charges for Energy and Water Efficiency Improvements (January 5, 2016 meeting of the Corporate Services Committee, Agenda Item #3)

<b>STRATEGIC PLAN 2015-2019</b>
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The following report supports the Strategic Plan in the important areas of public service delivery, climate change mitigation and adaptation, and job creation. Specifically, the potential use of Local Improvement Charges (LICs) for energy and water conservation building retrofits addresses all four Areas of Focus, directly and indirectly, as follows:

**Strengthening Our Community**

- Vibrant, connected, & engaged neighbourhoods
- Healthy, safe, & accessible city

**Building a Sustainable City**

- Robust infrastructure
- Strong & healthy environment

**Growing Our Economy**

- Diverse & resilient economy
- Urban regeneration
- Local, regional, & global innovation
- Strategic, collaborative partnerships

**Leading in Public Service**

- Innovative & supportive organizational practices
- Excellent service delivery

## BACKGROUND

### PURPOSE

The purpose of this information report is to provide Committee and Council:

- with an update on the status of the use of LICs for energy conservation retrofits on private property including highlighting the limited uptake on their use across Ontario; and
- an overview of the proposed Ontario Climate Change Solutions Deployment Corporation and its proposed role to encourage energy retrofits and low carbon technologies for homeowners and businesses and how it may replace some or all the need for LICs on private property for energy conservation.

### CONTEXT

In October 2012, the Ministry of Municipal Affairs and Housing amended Ontario's LIC mechanism under Ontario Regulation 586/06 (Local Improvement Charges — Priority Lien Status) of the Municipal Act, 2001. The amendments allow for new uses for the LICs to fund energy efficiency, renewable energy and water conservation capital works on individual, private properties. This is in addition to the traditional uses for LICs, which were previously limited to City infrastructure improvements in neighbourhoods, such as sidewalks, water and sewer pipes, and parks, which require a two-thirds vote of support from local property owners.

Carrying out retrofits of older buildings has the potential for significant energy savings and associated greenhouse gas emission reductions. Typically, these retrofit projects have financial payback periods ranging from 8 to 15 years, well within the future lifespan of these homes. However, for some homeowners, the payback time may be longer than they are planning to keep the home. Homeowners may have concerns that they might not recoup their investment when they sell their house, or access to funds needed to finance these retrofits may not be readily available for lower-to-middle income homeowners (e.g., seniors with fixed income).

Unlike conventional financing that is assigned to an individual, LICs on private property are assigned to the property itself. LICs have the ability to be transferred to a new property owner during a property sale. It is this ability, combined with the ability for municipalities to offer longer-term LICs (e.g., 15 years) at lower interest rates, which proponents see as being able to provide monthly LIC repayments that are close to being covered by the monthly utility bill savings and can be transferred over to a new owner.

LICs and the repayment program for them are fundamentally different than conventional financing from a bank or other financial institution which would normally be used for retrofits/upgrades. For example, LICs are a form of property tax that come with stringent repayment options as prescribed by the *Municipal Act*. Municipalities have limited options for dealing with defaults on LIC repayments. Banks or other financial institutions have different rules and flexibility for dealing with defaults on loan repayments. Because the use of LICs on private property (versus public property) is new and there is minimal track record, risks to municipalities in Ontario remain unknown for the most part.

In four years since the amendment noted above was made, only the City of Toronto has implemented a pilot project for implementing LICs on private property. City of Guelph is re-examining its services based on further investigation into a different kind of funding and incentive model. Several municipalities, including London, continue to stay very informed on this matter looking for cost effective solutions that minimize a municipality's risk of work undertaken on private property.

Background details from Toronto and Guelph, the City of London, and other pertinent details were contained in the January 2016 CWC report.

## DISCUSSION

This report covers the following:

- Part 1 – Status of Private Property LIC Programs in Ontario
- Part 2 – Ontario’s proposed Climate Change Solutions Deployment Corporation

### Part 1 – Status of Private Property LIC Programs in Ontario

#### 2012-2015: Status of LICs in Ontario with a Focus on Energy Conservation

In 2013, City of London staff (from Environmental & Engineering Services and Finance) participated in and provided funding for the Advisory Group for Collaboration on Home Energy Efficiency Retrofits in Ontario (CHEERIO) to evaluate the potential use of LICs across Ontario. This project addressed many of the questions and concerns raised about using LICs for funding home retrofits, as well as providing a report to assist those municipalities considering the development of a LIC program.

The City of Toronto used the learning from the CHEERIO project to develop its Home Energy Loan Program (HELP), which was launched in January 2014, with \$10 million in funding to cover activities for a three year pilot project (2014 - 2016), with a target to retrofit 1,000 homes. The pilot project required two full-time equivalents of staff to operate over the three year period.

The City of Guelph’s Energy Efficiency Retrofit Strategy (GEERS) was originally designed with a different approach than that used by HELP, primarily through:

- Creation of a stand-alone service organization, with about 10-12 full-time equivalents to manage and market GEERS;
- Pre-qualified product and service providers “purchased in bulk” by the GEERS service organization to provide competitive pricing; and
- Full rollout of the program (i.e., not a pilot project)

City of Guelph staff were directed to report back by the spring of 2016 with a full report on program details.

#### 2016: Status of LICs in Ontario with a Focus on Energy Conservation

Currently, Toronto’s HELP pilot project is still the only functioning private property LIC program in Ontario. As of December 31, 2016, 482 HELP applications have been received, with 261 funding offers issued. It is important to note that 45 percent of applications did not receive offers. As noted in the January 2016 CWC report, many applicants were unable to obtain lender consent because they have mortgage default-insurance from Canada Mortgage and Housing Corporation (CMHC). CMHC has signalled to lenders that they will not insure any LIC arrears on a given property.

Out of the 261 offers issued, there are 111 completed projects and 13 contracted projects underway (out of the target of 1,000 homes). There is no information on the status of the remaining 137 offers. City of Toronto staff are at the early stages of carrying out a review of their pilot project.

The City of London, the City of Guelph, and the Region of Durham provided the Clean Air Partnership with funding to work with Dunsky Energy Consulting to prepare an updated report on status of LIC-like programs in North America. The final report was delivered in June 2016. Of interest to note, California has seen their programs evolve from municipally-administered programs towards state-wide third-party administered delivery models. Copies of the report and supporting webinar can be found at the following link - <http://www.cleanairpartnership.org/projects/collaboration-on-home-energy-efficiency-retrofits-in-ontario-cheerio/>

On May 24, 2016, Guelph’s municipal council directed their staff to continue the development of GEERS with consideration for a staged implementation that is performance based with measurable targets for moving forward through the stages and

considers connections with provincial and federal emerging policies. This included gathering further information from outside sources, further options for potential third-party finances and support and further information on a city-wide residential energy audit option (as an alternative to the small-scale pilot project proposed in their May 24 staff report) as a first step for consideration within a GEERS program.

#### 2016: Status of LIC-Related Actions in London

In the January 5, 2016 meeting of the Civic Works Committee, City staff proposed scoping a potential pilot project LICs for energy conservation. The following timetable was developed based on available information at the time:

<b>Activity</b>	<b>Lead Area</b>	<b>(Original Timeframe) Percentage Complete</b>
Organize a series of discussions with key energy stakeholders such as City staff, London Home Builders' Association, London Property Managers Association, London Hydro, Union Gas, and local lenders to discuss the outstanding questions and receive comments on the approaches taken in Toronto and Guelph.	Environmental Programs	(January – April) 90%
Review and comment on the municipal finance aspects of Toronto's HELP and HiRIS pilot programs, as well as Guelph's proposed GEERS program.	Finance, Legal Services	(June – August) 50%
Prepare a DRAFT Business Case for a LIC Pilot Project including implementation scope, framework, costs, and risks.	Environmental Programs, Finance, Legal Services	(May – August) 25%
Prepare a Committee report with recommendations, based on the DRAFT Business Case, regarding the use of LIC financing for energy and water conservation (climate change mitigation), economic local benefit, and climate change adaptation measures	Environmental Programs, Finance, Legal Services	(September) 25%

On April 21, 2016, City staff hosted the City of London Home Retrofit Local Improvement Charge Workshop at the Civic Garden Complex, with speakers from the Clean Air Partnership, the City of Guelph, and the London Home Builders Association. Attendees included representatives from the Advisory Committee on the Environment (ACE), London Property Managers Association, London & St. Thomas Association of Realtors, London Hydro, and Union Gas. About 25 people attended the workshop. During the workshop, some interest was expressed in exploring this idea for use in retrofits in older, priority neighbourhoods and for residential rental properties, as well as measures such as solar energy.

After the workshop, participants were provided with the *Local Improvement Charges for Home Retrofits Stakeholder Discussion Primer*, summarizing the discussion points from the workshop, to help encourage further dialogue. A follow-up email was sent to participants on July 21, providing additional information from the CHEERIO LIC Update Study as well as Ontario's new Climate Change Action Plan and the proposed "Green Bank". To date, written feedback has been received from a member of ACE and Union Gas.

#### Preliminary Pilot Project Costs for LICs for Energy-Related Retrofits

Preliminary work on the financial and resource aspects of London's pilot project have been developed based on project experience in Toronto and Guelph. Documenting legal and risk aspects of the pilot project is underway but requires additional time as the learnings from Toronto have not been finalized. The target for London's pilot project is 50 to 60 homes undertaking energy conservation retrofits in a two-year pilot project.

Capital Funding	Annual Operating Costs	Description
\$500,000 to \$750,000		Access to funding, recovered through private-property LICs, to cover activities. These amounts are repaid including financial charges; however upfront funds are required.
	\$10,000	Costs for marketing and promotion for two year (\$5,000 per year).
	\$100,000	Program administration, customer service and outreach, compliance and measurements. Staff requirement about 0.5 full-time equivalents (FTE).
\$500,000 to \$750,000	\$110,000	<i>Total Preliminary estimate. To be refined as part of Business Case development</i>

It should be noted that under a future full rollout of a program, all program costs could be rolled into a full cost recovery program. The challenge in a pilot project is that a small number of participants would be required to absorb a larger part of the program costs as economies of scale do not exist. In addition, there is currently no identified funding source in the 2016-2019 multi-year budget for this pilot project.

#### Next Steps – Staff Recommendation

Given the details provided in the next section (Part 2) and the minimal activity that is occurring in Ontario at the municipal level on this item, City staff are recommending that the final development of the local pilot project be delayed to permit the Provincial Government to finalize its details including funding and incentives.

## **Part 2 – Ontario’s Proposed Climate Change Solutions Deployment Corporation**

On June 8, 2016, the Province of Ontario published its [Climate Change Action Plan](#). Within the plan, the Provincial Government proposed the creation of a “Green Bank”, modelled upon similar entities used in American states to provide financing for energy-efficient and low-carbon technologies for homeowners and businesses. The proposed Green Bank could fulfil the same need and function as the proposed Property-Assessed Clean Energy (PACE) included within London’s 2015-2019 - Strategic Plan.

On December 15, 2016, the Provincial Government published a *Draft regulation establishing the Ontario Climate Change Solutions Deployment Corporation under the Development Corporations Act* (i.e., the “Green Bank”, although the final public name of this entity has yet to be determined).

The corporation’s programs will be funded from the revenue collected through the Cap and Trade program and allocated to the province’s Greenhouse Gas Reduction Account. The corporation’s activities would focus on reducing market barriers to deployment of low-carbon technologies, including through improved access to information, incentives, and strategic use of “financial de-risking tools” to encourage greater private sector investment, emphasizing fuel-switching (i.e., replacing fossil fuel use), energy storage, and deep energy retrofits. This would be done through the following:

- providing information and services;
- providing incentives and engaging in financing activities, including incentives to individuals;
- stimulating private sector financing;
- researching market barriers; and
- monitoring outcomes.

The proposed activities will need to support Ontario’s Climate Change Action Plan, specifically the proposal to establish programs for:

- existing residential buildings, including those with low-income residents;
- new residential buildings; and
- production of goods.

The proposed corporation's mandate overlaps with Council's Strategic Plan goal to establish a "Property-Assessed Clean Energy" program, specifically providing incentives and financing for existing residential buildings, including those with low-income residents, for fuel-switching (e.g., solar hot water heating, heat pumps) and deep energy retrofits (e.g. major renovations that would increase insulation and upgrade the heating system).

There is no information available at this time about the proposed incentives, financing tools, and program activities that this corporation would offer. It is expected that the Ministry of Environment and Climate Change (MOECC) will carry out a "focused consultation" on this corporation's detailed programs and design in the first quarter of 2017. In terms of financing activities, the Clean Air Partnership has shared with the MOECC the knowledge and experienced obtained by Ontario municipalities through the CHEERIO project and the potential role that a province-wide, private-property Local Improvement Charge program could play as one of the financing tools that could be coordinated by this Corporation.

#### Next Steps – Staff Recommendation

City staff will continue to work through organizations such as the Clean Air Partnership and Quality Urban Energy Systems of Tomorrow (QUEST Ontario Caucus) to provide input and commentary in to the proposed Ontario Climate Change Solutions Deployment Corporation "Green Bank" and its activities, including the potential to establish a province-wide private property LIC-based financing as one of many options.

If this does occur, this would reduce the need for upfront municipal funds and human resources to make use of LICs for energy retrofits locally. Once more information is available on the scope of these activities, City staff will then be able to determine whether the provincial "Green Bank" fulfils the same role that the Strategic Plan's Property-Assessed Clean Energy program and the proposed LIC program would provide.

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