

## Municipal Financing of Energy Retrofits (MFER)

### A Unique Opportunity for the City of Ottawa

#### Key Features of Municipal Financing

A municipal financing program for retrofitting homes and businesses in the City of Ottawa would:

- ⇒ Save homes and businesses money through lower energy bills
- ⇒ Provide savings greater than costs every year - right from the first year
- ⇒ Involve no cost to city – all costs recovered
- ⇒ Be sufficient to cover major retrofits and can be spread over long term
- ⇒ Allow financing obligations and benefits to be shared with new owners
- ⇒ Be voluntary to any home and business
- ⇒ Be City administered - lower risks and provides credibility
- ⇒ Create local jobs
- ⇒ Make Ottawa a leader on green buildings

### Why Municipal Financing?

- Homeowners and small businesses in Ottawa are suffering because of rising energy prices that are likely to continue to go up no matter what energy source is used.
- The only sure way of reducing energy bills is through major retrofits of homes and buildings.
- While energy retrofits pay for themselves in the long term, many families and businesses do not have the up front capital to pay for these major retrofits.
- On average, families and businesses move every 5 years – most won't make an investment that cannot be recouped before they might move.
- The answer is long term low cost financing where the term is long enough for the annual cost to be less than the annual energy savings, and where both the benefit and cost can be transferred upon sale of the property.
- Municipalities are in a unique position to provide this type of financing –
  - By defining energy retrofits as a “local improvement” municipalities can associate retrofit financing with a property rather than its owner and therefore share the benefits and obligation with subsequent owners,
  - Municipalities can provide lower cost financing because they have access to low cost funds and property liens secure repayment
  - Municipalities can oversee the assessment of likely savings and provide quality control of the retrofit process and confidence to property owners
  - Municipalities can recover all costs of providing the financing by setting the term and rate

### Municipal Financing is Known by Many Names

- PAYS – Pay as you Save (United Kingdom)
- PACE – Property Assessed Clean Energy (United States)
- PAPER – Property Assessed Payments for Energy Retrofits
- LIC Financing – Use of Local Improvement Charges to finance energy retrofits

### Support is Growing in Canada and the United States

- Over 20 US States have passed legislation enabling this type of municipal financing and many municipalities now offer programs
- Vancouver, Halifax, and other municipalities across Canada are considering such a financing program and have useful experience to share.
- There is growing stakeholder advocacy across Ontario for the Province to make changes to municipal regulations that would enable municipalities to provide this type of financing.
- The City of Windsor has passed a council resolution recommending the Province make these changes.
- The Toronto Real Estate Board has endorsed the concept and recommends the creation of municipal financing programs in Ontario

Example Programs:

Vancouver:

- 500 pilot home retrofit financing program underway
- Loans up to \$10,000 attached to property via title
- Administered through Van City Credit Union

Halifax:

- Solar water heating financing program – planned for 2012
- Financing will be assessed to property
- Enabling modifications already made to City Charter

Babylon, Long Island, NY:

- Retrofit financing up to \$15,000 per residential property
- >100 homes retrofitted to date
- Redefined its solid-waste code to include energy waste, based on its carbon content. Led to New York State enabling legislation

Ottawa can be a leader in Ontario

- Ottawa has the advantage of having an experienced local housing retrofit and green building industry, and a Green Buildings Initiative that could encompass such a financing program.
- Ottawa city staff have also been participating in province-wide discussions with other municipalities via Sustainable Alternatives Consulting's work for the David Suzuki Foundation to investigate how such a financing program might be implemented, the provincial regulations that might need to be changed, and services that each municipality might need.

How would it Work?

The City Of Ottawa would first decide which major energy retrofit measures would be eligible for such a financing program and the minimum and maximum financing size.

The City would then identify sources of investment that could be used by the program (for example the Municipal Financing Corporation), and set financing rates and terms for homes and businesses so that all the City's program costs were covered.

The City would publish a list of qualified/certified energy auditors and contractors.

Finally, City staff would set up working arrangements with the Ottawa audit and retrofit industries, identify responsibility centres for each component of the program, and identify other professional expertise needed.

A typical financing transaction would proceed as follows:

1. A home or business owner registers with the City to access the program and participates in a workshop on retrofit.
2. The home or business owner arranges an energy audit and decides on the scope of a major retrofit to be undertaken.
3. Project eligibility is assessed by the City and a pre-retrofit appraisal is conducted.

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4. The homeowner or business owner obtains quotes for the work.
5. The home or business owner applies to City for financing of the planned retrofit, and participates in a discussions on how the project will be implemented and other measures that could be used to save energy.
6. The City negotiates the term of the financing with the home or business so that estimated annual energy savings are greater than annual financing payments.
7. A financing agreement is signed that defines the energy retrofit as a local improvement and associates the financing obligation with the property so that any defaulted payments can be attached as a lien.
8. The retrofit goes ahead with quality assurance to ensure work is done as planned.
9. The energy evaluator & home/business owners sign off on the work and the contractor and installers are paid.
10. The home or business owner pays off the financing to the City on a regular basis over the agreed term.
11. On sale of the property, obligation for remaining repayment of financing passes to the new owner.

### Example

Typical Major retrofit:            Cost = \$10,000            Annual Savings = **\$1000 per year**

- Municipality Cost:
  - 15 year borrowing @ 4% = \$ 13,315
  - Admin = 12 % of financing = \$ **1,200** to be covered by the difference in total interest paid and earned
  - **Total cost = \$14,515**
- Municipality Revenue:
  - Retrofit Financing: 15 year term at 5.5%
  - Annual Payment by participant = **\$ 981**      Total= **\$ \$14,708**
  - **Net city revenue = \$193**

Participant's annual savings are greater than their repayment to the City.

The City's costs are more that offset by the difference in interest rates.

### Required Enabling Changes to Municipal Regulations

- Define reductions in energy use and greenhouse gas emissions as a public benefit and energy retrofits as a local improvement.
- Allow municipalities to finance energy improvements on individual private properties and assess them against the property.
- Specify that these improvements can include energy efficiency upgrades to the buildings on the property and then the installation of renewable energy technologies.
- Allow total costs for a property's energy improvements and pro-rated administrative costs to be allocated to the property.

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- Allow the financing of the improvement and subsequent assessment against property to be a voluntary decision by the individual property owner.
- Extend the local improvement financing feature so that overdue payments of this assessment against the property are secured through a lien on the property payable to the municipality ahead of mortgages.
- Allow municipalities to use this provision as security for borrowing that is adjusted from debt totals to finance the improvements.
- Allow municipalities to streamline the approval process so that a bylaw is not needed for each improvement, and the process of setting up financing is simple and straightforward.
- Make it clear that municipalities can recover all costs of administering the financing process through the terms charged to the property owner.
- Allow the financing for this LIC use to remain with the property and continue to be repaid by the new owner on sale.

### Next Steps for the City of Ottawa:

It is expected that City staff will be making reference to municipal financing of energy retrofits in its report to Council in early 2012.

We recommend that:

- a) The City of Ottawa commission a feasibility study of a municipal financing program to support the retrofit of Ottawa homes and buildings. This feasibility study should include the following topics:
  - Basic program elements and design for revenue neutral program options serving both the housing retrofit and building upgrade markets
  - Roles of departments and contracted out services for each market
  - Sources of financing—options / pros and cons
  - Program costing—cash flow forecasts
  - Risk analysis
  - Legal issues including provincial regulatory changes needed
  - Anticipated administrative costs for start-up and operations, including establishing eligibility criteria and protocols and developing evaluation criteria
  - Identification of packages of measures and associated financing
  - Means of qualifying contractors, installers, etc
  - Application process

The study should involve consultation with the green building and real estate industries and other stakeholders in Ottawa.

Finally, the feasibility study should identify the changes in *Municipal Act* regulations required to implement the financing program.

- b) Mayor and City council work with other municipalities, Sustainable Alternatives Consulting Inc., the Association of Municipalities of Ontario (AMO) and Ministry of Municipal Affairs and Housing (MAH) to make changes in regulations that will enable Ottawa and other Ontario municipalities to offer a municipal financing program.

## Information Sources

### Municipal Financing Opportunities in Ontario:

- a) Persram, Sonja, *Property Assessed Payments for Energy Retrofits: Report No 1: Recommendations for Regulatory Change and Optimal Program Features*. David Suzuki Foundation. April 2011. The report is available at:  
[www.davidsuzuki.org/publications/downloads/2011/Property-Assessed-Payments-for-Energy-Retrofits-recommendations-1.pdf](http://www.davidsuzuki.org/publications/downloads/2011/Property-Assessed-Payments-for-Energy-Retrofits-recommendations-1.pdf)
- b) Persram, Sonja, *Property Assessed Payments for Energy Retrofits: Report No 2: Other Financing Options*. David Suzuki Foundation. May 2011. The report is available at:  
[www.davidsuzuki.org/publications/downloads/2011/DSF-PropertyOptions-2.pdf](http://www.davidsuzuki.org/publications/downloads/2011/DSF-PropertyOptions-2.pdf)
- c) Persram, Sonja, *Property Assessed Payments for Energy Retrofit: Report No 3: Strategic Recommendations for Implementation*. David Suzuki Foundation. August 2011. The report is available at:  
<http://www.davidsuzuki.org/publications/downloads/2011/DSF-StrategicRec-final.pdf>
- d) Baser, B., Peters, R., and LePan, N., *Pay as You Save (PAYS) Financing of Energy Efficiency and Renewable Energy Building Improvements in Ottawa-Briefing Paper*. Ecology Ottawa. January 2011. This report is available at:  
[www.ecologyottawa.ca/webyep-system/program/download.php?FILENAME=88-16-at-PDF\\_File\\_Upload\\_5.pdf&ORG\\_FILENAME=Pay as You Save Loans-Briefing Paper 5Jan2011 FINAL.pdf](http://www.ecologyottawa.ca/webyep-system/program/download.php?FILENAME=88-16-at-PDF_File_Upload_5.pdf&ORG_FILENAME=Pay_as_You_Save_Loans-Briefing_Paper_5Jan2011_FINAL.pdf)

PACE programs throughout the US – [www.pacenow.org](http://www.pacenow.org)

### Long Island Benefit Assessed Clean Energy (BACE) Program:

*Case Study: Long Island Green Homes Program in Babylon, New York.*  
ICLEI-Local Governments for Sustainability. 2010. This report is available at:  
[www.townofbabylon.com/uploads/pdffiles/CaseStudy\\_BabylonNYGreenHomes.pdf](http://www.townofbabylon.com/uploads/pdffiles/CaseStudy_BabylonNYGreenHomes.pdf)

### Vancouver Pilot Home Retrofit Financing Program:

Staff Report: <http://vancouver.ca/ctyclerk/cclerk/20110531/documents/rr1.pdf>  
Council Approval:  
<http://vancouver.ca/ctyclerk/cclerk/20110531/documents/regu20110531min.pdf>

### Halifax Regional Municipality Community Solar Project:

Latest News: <http://www.halifax.ca/solarcity/>  
Council Report: <http://www.halifax.ca/solarcity/documents/CouncilReport.pdf>

### Original Research and National Assessment

Pembina Institute (2004/2005).  
*Using Local Improvement Charges to Finance Energy Efficiency Improvements – Applicability across Canada* <http://communities.pembina.org/pub/197>