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Community Efficiency Financing (CEF) Program Staff Report to Council

Report Number: 2020-38

Department(s): Planning and Financial Services

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Meeting Date: June 8, 2020

Recommendations

1. That the report entitled Community Efficiency Financing (CEF) Program dated June 8, 2020 be received; and,
2. That the Newmarket Energy Efficiency Retrofit (NEER) Business Case, as presented during the September 30th, 2019 workshop, be approved in principle; and,
3. That the Resolution, included as Attachment 2 to this Report, be approved; and,
4. That staff be directed to apply to the Community Efficiency Financing program issued by the Federation of Canadian Municipalities (FCM); and,
5. That staff be authorized and directed to do all things necessary to give effect to this resolution

Executive Summary

The Federation of Canadian Municipalities (FCM) has recently made available a funding opportunity for municipalities looking to launch a home energy efficiency retrofit financing program. Through the Town's past efforts with the approval of its Community Energy Plan (CEP) and the Newmarket Energy Efficiency Retrofit (NEER) initiative, the Town is in a unique position to apply to this funding. This funding (if secured) is proposed to be used to fund the development of a detailed NEER business plan, secure start-up capital for the NEER program, provide the Town with the resources to enact & administer a Local Improvement Charge (LIC) By-law, and provide low-interest loans for homeowners to finance residential energy efficiency retrofits.

Purpose

The purpose of this report is to seek Council approval of the attached Resolution (Attachment 2) in order to satisfy the requirements to apply to the Community Efficiency Financing Program funding.

Background

Since the Council approval of the Community Energy Plan (CEP) in May 2016, staff have been investigating effective and economical means for implementing the strategies outlined within the plan. The CEP recommends that the Town investigate the creation of a program that will deliver high-quality and standardized residential energy efficiency retrofit packages.

Following approval of the CEP, the Town completed a Business Case examining the potential of such a program and the findings were then presented to Council during a workshop on September 30th, 2019. A summary of the NEER initiative is included as Attachment 1 to this Report and for the full document please contact planning@newmarket.ca. At that time, staff indicated that a further report would be forthcoming with recommendations regarding the Business Case.

With the Business Case now prepared and the recent release of a funding opportunity, the time is ideal to proceed with the next steps of this project.

Discussion

Community Efficiency Financing (CEF) Program

Through the 2019 Federal Budget, FCM's Green Municipal Fund was granted \$950 million to create three new programs all focusing on increasing energy efficiency in residential, commercial and multi-unit buildings. \$300 million of this \$950 million has been earmarked for the delivery of the Community Efficiency Financing (CEF) program. The focus of the \$300 million is to provide support for municipalities to create and implement innovative financing mechanisms geared towards accelerating investments in energy efficiency and renewable energy generation.

Funding is available for municipalities looking to both complete studies/plans and capitalize on existing/new programs. With the NEER Business Case complete, this funding opportunity can significantly accelerate the implementation of the NEER initiative and address several risks/assumptions identified in the NEER Business Case. Specifically, the CEF program provides municipalities with the opportunity to develop detailed business plans, secure start-up capital for program implementation, and finance homeowner retrofits in the community. Each of these three points were identified as challenges in the Business Case.

Funding Breakdown

The CEF program will offer municipalities the following financial support:

Table 1: Funding Opportunity

Initiatives	Description	Funding Type & Maximum Amount
Program Capitalization (Loan)	Capital to support the launch or growth of local initiatives	A loan of up to \$10M, with an accompanying grant of up to 50% of the loan amount. The GMF contribution (i.e. combination of the loan grant) can cover up to 80% of total eligible costs
Studies (grant)	Support municipalities to develop or refine a concept up to the point that it may be ready to apply for capitalization	Up to 80% of the eligible costs to a maximum of \$175k
Credit Enhancement (Loan Guarantee)	A partial loan guarantee to be used to help leverage third party capital	A partial loan guarantee of up to \$2M

Funding Timeline

The development and launch of the CEF Program will proceed in three phases:

Table 2: CEF Application Timeline

Phase	Description	Available Funding Type	Timeline
First Call for Application	This is for municipalities with existing programs looking to recapitalize or capitalize new programs.	<ul style="list-style-type: none"> Program Capitalization Credit Enhancement 	<i>March 31st, 2020 – June 30th, 2020</i>
Second Call for Application	This will be for municipalities who are ready to explore financing programs or undertake program design.	<ul style="list-style-type: none"> Studies (grants) 	<i>June 30th, 2020 – October 31st, 2020</i>

Standing Offer	Municipalities new to energy efficiency financing, or municipalities looking for additional capital and research will be eligible to apply.	<ul style="list-style-type: none"> • Studies (grants) • Program Capitalization • Credit Enhancement 	<i>Winter 2021</i>
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Why Apply Now?

During the Fall 2019 Workshop, Council addressed several challenges to the NEER Business Case including scalability, program education, capacity building and third-party federal support. Applying for the “First Call for Application” will allow Newmarket to unlock start-up capital to complete a detailed Business Plan which would complete a greater investigation into the market potential of the NEER Program and review the assumptions made in the Business Case. The current funding opportunity offered by FCM is particularly attractive as it goes beyond the creation of the detailed Business Plan and could provide the Town with access to enough resources to enact & administer an LIC By-law and finance the launch as well as the initial years of program operation.

Successful applicants during the first round will also benefit from the following capacity building support:

1. Participation in a peer learning network of early adopters of residential energy financing programs, including in-person and virtual meetings to exchange best practices and lessons learned with each other and with the Green Municipal Fund (GMF).
2. Access to technical advice to help ensure their program is successfully launched or scaled up and achieves the expected results.
3. National profile and recognition for their funded programs and invitations to present their work at conferences and other learning events.

Through the Town’s past efforts with the approval of its CEP and the NEER Business Case, the Town is in a unique position to apply to the first round.

Funding Eligibility

The CEF program will be open to projects/programs that meet the following requirements:

1. The project must utilize at least one financing approach (i.e. Local Improvement Charges, on-bill financing, etc.).
2. The project must have the potential to generate quantifiable energy savings, greenhouse gas reductions and environmental benefits.

With the approval of the Recommendations of this Report, Newmarket's NEER Program will satisfy both of these requirements.

To apply for the first call for application a municipality must have the following prerequisites:

1. A community energy plan that identifies energy efficiency in the residential sector as a priority area for action
2. A feasibility study or business case similar for the launching program
3. A resolution which authorizes the use of the specified financing mechanism in accordance with relevant provincial/territorial legislation
4. A municipal council resolution committing to capitalize or recapitalize the program
5. Proof you have legal authority to pursue the proposed initiative (e.g., a letter from your Province/Territory or Legal Counsel)

As will be discussed in the next section of this Report, Newmarket currently satisfies 3 of the 5 prerequisites. With the approval of the Recommendations for this Report, all 5 of these prerequisites will be satisfied.

Town Commitment

At its current state, the Town satisfies several of the prerequisites mentioned above including the implementation of a Community Energy Plan, a Business Case supporting the creation of a home energy efficiency retrofit program and provincial regulations permitting the use of the LICs as a financing mechanism for energy efficiency retrofitting (Ontario Regulation 586/06: Local Improvement Charge - Lien Status). To satisfy the remaining prerequisites and submit a competitive application, approval of the Resolution attached to this Report is required. This will demonstrate the following commitment:

1. To authorize the use of LICs as Newmarket's financing mechanism for the NEER Program; and,
2. That the Town commits to capitalizing 20% of total eligible costs only if Newmarket is successful in securing funds and Council approves the detailed Business Plan.

It is anticipated that at this time Newmarket will apply for the current funding round to take advantage of the capitalization opportunity to help finance the preparation of the detailed Business Plan as per Council comments during the Council Workshop on September 30, 2019. Only after Council is comfortable with the Business Plan and approves it, would the Town then proceed to setting up the Entity and launching the Program using the additional capital resources.

Next Steps

This Report enables Newmarket to apply for CEF funding and position the Town to champion an effective residential energy efficiency retrofitting program. There will still be

decision points to make before Council commits to the launch of the program including the approval of the Business Plan and enacting an LIC By-law.

If the recommendations of this Report are approved, municipal staff will submit an application to the CEF Program under the authority of the Mayor and CAO. This funding (if secured) is proposed to be used to fund the development of a detailed NEER business plan and, subject to its approval by Council, secure start-up capital for the NEER program, provide the Town

Conclusion

A funding opportunity now exists that could help accelerate the next phase of the NEER project, being the preparation of a full Business Plan and securing start-up capital that would mitigate financial risks. The recommendations of this report will provide staff with an approved Business Case and a Resolution supporting, in principle, the creation of an effective home energy efficiency retrofit program and makes use of a creative financing mechanism which are both requirements to apply for funding. An approved Business Case and an adopted Council Resolution will put the Town in a strong position to apply to this current funding opportunity.

Business Plan and Strategic Plan Linkages

1. Long-term Financial Sustainability:
 - a. Through establishing a self-sustaining entity which collaborates with the community while retaining financial stability, and;
By providing an affordable finance method for homeowners to better integrate smart and energy-efficient solutions.
2. Economic Leadership and Job Creation:
 - a. With long-term, predictable work for local retrofit contractors.
3. Environmental Stewardship:
 - a. With the continuing implementation of the Community Energy Plan (CEP)
 - b. Aligns with Council's recent Climate Emergency declaration
 - c. Support highly effective partnership with LSRCA, MECP, York Region, NTPower

Consultation

Regular consultation with a multi-departmental internal working group was held. Departments included Building & Planning, Financial Services and Strategic Initiative. The creation of the Report and Resolution was also supported by Brent Kopperson, Founder and Executive Director of Windfall Ecology Centre.

Human Resource Considerations

None.

Budget Impact

The Community Efficiency Financing program will fund up to 80% of program costs which are inclusive of a hybrid of low-interest loans used to finance residential retrofits (up to \$10 million) and grant funding to fund the development of a business plan and the start-up operating costs associated with the implementation of the business plan (up to \$5 million).

It is proposed that Newmarket will apply for the maximum loan and grant amounts which equate to a total funding request of \$15 million from the Community Efficiency Financing program. This request will require Newmarket to fund 20% of the total program costs. Initially, this would include the creation of the detailed NEER Business Plan which the Business Case estimated approximately \$150,000. Only after Council is comfortable with the detailed Business Plan and approves it, would the Town then proceed to setting up the Entity and launching the Program using the additional capital resources. This would equate to a maximum of \$3.75 million (i.e. if FCM will provide \$15 million to fund 80% of total program costs the maximum program cost is \$18.75 million. This makes Newmarket's maximum funding \$3.75 million/20% of total program costs). Should the Town not accept the detailed Business Plan, our risk exposure is potentially \$150,000 and termination of our agreement with FCM.

The Town's commitment would most likely come from an internal loan to be repaid as quickly as possible however this would need to be determined through further work as part of the Business Plan. The internal loan from reserves will be repaid from the NEER entity employing as quick a payback period as possible. This funding approach would minimize any impacts to Newmarket's ratepayers and taxpayers as the principal plus interest will be repaid to the Town's reserves.

Attachments

Attachment 1: *Newmarket Energy Efficiency Retrofit (NEER) Business Case Summary.pdf*

Attachment 2: *Community Efficiency Financing Resolution.pdf*

Attachment 3: *Community Efficiency Financing - FAQ.pdf*

Submitted by

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Approved for Submission

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Community Efficiency Financing (CEF) Program

Jason Unger, Acting Director, Planning & Building Services

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Contact

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