



## REPORT FOR ACTION

## Home Energy Loan Program and High-rise Retrofit Improvement Support Program Update

**Date:** April 19, 2018

**To:** Parks and Environment Committee

**From:** Director, Environment and Energy

Executive Director, Social Development, Finance and Administration

**Wards:** ALL

### SUMMARY

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Since its launch in 2014, the Residential Energy Retrofit Program has provided financing to support property owners in undertaking energy efficiency and water conservation improvements. The Program operates as two streams: the Home Energy Loan Program (HELP) for eligible homes; and, the High-rise Retrofit Improvement Support Program (Hi-RIS) for multi-unit residential buildings.

This report provides an update on the status of HELP and Hi-RIS, including the impacts of refinements adopted by City Council in 2017 to enhance the Programs and drive greater program uptake. It also seeks City Council authorization to extend the Home Energy Loan Program and High-rise Retrofit Improvement Support Program until December 2019 to further explore program enhancements aligned with the implementation of TransformTO.

The opportunities presented by growth in program uptake to date, and the size of the residential housing market (single family and multi-unit residential buildings) provide a solid foundation on which to scale these initiatives to meet the socio-economic and environmental objectives of TransformTO and other key City of Toronto policies and priorities such as poverty reduction, housing affordability and quality of existing building stock.

### RECOMMENDATIONS

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**The Director, Environment and Energy and Executive Director, Social Development, Finance and Administration recommend that:**

1. City Council authorize the extension of the Home Energy Loan Program (HELP) and the High-rise Retrofit Improvement Support Program (Hi-RIS) to December 31, 2019 and direct the Director, Environment and Energy and Executive Director, Social Development, Finance and Administration to report back to the Parks and Environment Committee in the second quarter of 2019 as part of the TransformTO Status Report with

an evaluation of outcomes and options, including a business case for an enhanced permanent program.

2. City Council authorize the Director, Environment and Energy and Executive Director, Social Development, Finance and Administration to allocate a portion of the unused funding attributed to the Home Energy Loan Program (HELP) (included in the Environment & Energy (FREEE) Capital program) with funding from the Local Improvement Charge Energy Works Reserve Fund (XR1724) to the High-rise Retrofit Improvement Support Program (Hi-RIS) as part of the extension of the programs, and include the staffing and funding resources needed for the extension in the 2019 Operating Budget Submission for Social Development, Finance and Administration

## **FINANCIAL IMPACT**

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No additional financial commitments are required from the City to support the recommendations outlined in this report.

The 2018 – 2027 Council Approved Capital Budget and Plan for Facilities, Real Estate and Environment & Energy (FREEE) includes funding of \$1.25 million in 2018 to support the Home Energy Loan Program, with funding from the Local Improvement Charge Energy Works Reserve Fund (XR1724).

The 2018 Council Approved Operating Budget for Social Development, Finance and Administration (SDFA) includes funding of \$3.344 million in 2018 to support the High-rise Retrofit Improvement Support Program, with funding from the Local Improvement Charge Energy Works Reserve Fund (XR1724).

The HELP and Hi-RIS programming requirements will be included in the 2019 Operating and Capital Submissions for the respective programs as may be required.

The Local Improvement Charge Energy Works Reserve Fund was established by the City with a \$20 million contribution to support a pilot implementation and will continue to be used as the funding source for its proposed extension. To date, \$2.7 million has been committed to residents under the Home Energy Loan Program, and \$7.7 million (\$4.1 million disbursed, \$3.6 million in commitments) under the Hi-RIS Retrofit Improvement Support Program.

The Acting Chief Financial Officer has reviewed this report and agrees with the financial impact information.

## **DECISION HISTORY**

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At its July 2013 meeting, City Council approved an energy and water efficiency pilot program for the residential sector ([EX33.22/2013](#)) – the first municipality to do so in Ontario. Subsequently, the HELP and Hi-RIS Programs were launched in 2014 to support homeowners and the multi-unit residential building sector, respectively. Each program was allocated a \$10 million funding envelope to be administered to qualifying property owners interested in undertaking retrofit investments.

In April 2015, City staff provided an interim update on the progress of the pilot program to the Parks and Environment Committee ([PE3.2/2015](#)). The initial findings indicated a high level of interest in the programs as funding requests were higher than forecasted and program participants indicated a high degree of customer satisfaction.

At its December 2016 meeting, City Council approved *TransformTO: Climate Action for Healthy, Equitable and Prosperous Toronto - Report #1* ([PE15.1/2016](#)). The report prioritizes energy efficiency within the residential sector as a key emissions reduction strategy to support the City's established GHG reduction targets i.e. 80% GHG reduction by 2050. TransformTO short-term actions include the Council approved business case 1.5 Continue support for residential property owners using the HELP & Hi-RIS programs to accelerate greater uptake for the energy performance of existing homes and apartment buildings to help reach a cumulative GHG reduction target of 3,000 to 40,000 tonnes by 2020.

At its December 2016 meeting, City Council adopted the 2017 work plan and progress report for TO Prosperity - Toronto Poverty Reduction Strategy ([EX20.10/2016](#)). The 2017 work plan identifies the Hi-RIS program as an initiative that supports the recommendation to improve the quality and affordability of rental housing for all by supporting improvements and deterring property owners from passing down improvement costs to tenants.

In March 2017, City staff provided a Program Evaluation Report ([PE18.4/2017](#)) which presented the results of a third-party evaluation of the Residential Energy Retrofit Pilot Program. The report included seven recommendations for program refinements to further drive participation. At its April 2017 meeting ([PE18.4/2017](#)), City Council adopted all of the recommendations put forward in the Program Evaluation Report, including an extension of the program to December 3, 2018.

## **COMMENTS**

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### Overview

The Residential Energy Retrofit Pilot Program operates as two financing streams: HELP managed by the Environment and Energy Division and Hi-RIS managed as part of the Tower Renewal Program in the Social Development, Finance and Administration Division.

HELP and Hi-RIS (the Programs) were designed to address key barriers to energy efficiency retrofits such as high, upfront capital costs and, to provide 'one-window' access to support services including connections with utilities. This service delivery model has been successful in creating a pathway for property owners to complete energy efficiency retrofits.

Informed by a third party evaluation as well as technical assistance from C40's Cities Climate Leadership Group, City staff are exploring options for increasing Program uptake in order to fulfill directions approved by City Council as part of TransformTO. An extension of both programs will allow City staff to capture the full benefit of increased uptake and thoroughly assess Program outcomes.

## 1. HELP & Hi-RIS Program Participation, Uptake and Results

### i) Participation and Uptake from January 2014 to March 2018

Both programs have experienced an increase in uptake since April 2017.

Table 1: Participation and Uptake

January 2014 to March 2018	HELP	Hi-RIS
Pre-applications/Expressions of Interest Received	677	37
Funding Offers	354	29
Retrofit Projects Completed and Committed	160	11 properties (1,861 units)
Program Expenditure Completed and Committed	\$2.7 million	\$7.7 million

### HELP

Since April, 2017:

- Applications received increased by approximately 28%
- Funding offers increased by 25%
- Disbursed and committed loans increased by almost 22%
- An estimated \$7.4 million in programming dollars remain.

HELP is able to convert 1 in every 4 applicants into completing a retrofit project. Reasons that applicants do not proceed with their retrofit is because they are unable to obtain lender consent, ineligible, no longer interested, have sourced alternative financing or postponed their retrofit project.

## **Hi-RIS**

Since April, 2017:

- Applications received increased by approximately 60%
- Funding offers increased by 55%
- Disbursed and committed loans increased by almost 50%
- Although the eligibility was extended to buildings of 3 or more storeys, 75% of new applications are for buildings that meet the original criteria of 5 or more storeys
- 17 applications received from properties located in Neighbourhood Improvement Areas (NIA)
- The program has met 77% of the funding target with an estimated \$2.3 million remaining

Many of the Hi-RIS projects are for hard to finance deep retrofits such as window replacements, roof retrofits and boiler upgrades. In total, Hi-RIS has been able to convert 30% of applicants to commit to a range of retrofits. Due to the size and complexity of each multi-unit residential building, retrofitting these properties must include time for project planning, development and implementation. These retrofit projects can take more than a year from the initial application to completion therefore, conversion rates are difficult to capture mid-year. Some applicants to Hi-RIS do not proceed for reasons similar to those identified above: ineligibility, loss of interest, or postponing a retrofit. City staff are continuing to engage with applicants to further increase project completion rates.

It is too early to assess the full impacts of these activities because it has been less than a year in implementing the Program refinements and enhancing industry engagement. Reporting back with a program update as part of the TransformTO Status Report in 2019 would allow the Programs to build additional momentum in the market.

### **ii) Expected Project Expenditure – 2018 Update**

#### **HELP**

A total of \$2.7 million in capital funds has been committed to 160 individual projects which represents 26% of the funding envelope. The average monthly application intake since January 2018 has doubled compared to previous years. At the current rate of application intake, HELP is expecting to commit an additional \$1.2 million (approximately) from the funding envelope this year. A portion of the uncommitted funds could be allocated to support the Hi-RIS program on an as needed basis as they anticipate on disbursing their funding envelope by year-end.

#### **Hi-RIS**

To date, Hi-RIS has committed \$7.7 million to support the completion of eleven (11) projects. At the current rate of project participation, the Hi-RIS Program is expected to commit the entire \$10 million funding envelope by the end of 2018.

As the program matures, an inability to provide financing into 2019 would stifle program uptake and impede a full assessment of the program impacts. In order to continue the program while ensuring no additional financial impact, Hi-RIS could access a portion of the unused funding envelope from HELP. The funds would be drawn from the existing Local Improvement Charge Energy Works Reserve Fund created through the authorization of City Council in 2013 ([EX33.22/2013](#)). With access to these funds, Hi-RIS can continue to respond to keen program interest and support program objectives including maintaining affordability, increasing energy efficiency, job creation and improving housing quality as well as enhanced scalability of the program.

### iii) Project Results – 2018 Update

Table 3 provides an update on typical projects funded through HELP and Hi-RIS

	HELP	Hi-RIS
Average project cost	\$17,400	\$703,700
Average assessed value of the property	\$591,000	\$25,007,800
Average Simple Payback of retrofit projects	> 20 years (75% of projects) <sup>1</sup>	21 years
	13 years (25% of projects) <sup>1</sup>	
Average operating cost savings	\$560/year <sup>1</sup>	\$34,100 year
Average total energy reduction	30% <sup>1</sup>	19%
Greenhouse gas emissions reductions	395 tonnes eCO <sub>2</sub> /year <sup>1</sup>	1,730 tonnes eCO <sub>2</sub> /year
Types of energy efficiency retrofit measures undertaken	Windows and doors, heating system, insulation, air sealing <sup>1</sup>	Windows and balcony doors, roof, boilers, elevator motors, BAS

<sup>1</sup> This figure is taken from the Program Evaluation Report ([PE18.4/2017](#)) which evaluated program data from 2014 to 2016.

## **2. Approaches for Achieving Program Scale-up**

As part of the continuation of HELP and Hi-RIS, City staff have refined approaches to better engage property owners and the industry at large in order to enhance program uptake. Staff are also exploring alternative program design and administration models to further scale up the Programs.

Action has been taken in four areas:

- Mobilizing capital for project funding
- Engaging an external entity to lead marketing and outreach
- Streamlining internal City administrative processes
- Providing a roster of pre-qualified contractors for homeowners

### **Mobilizing Capital**

A review of best practices from US jurisdictions utilizing LIC-like financing reveals alternative approaches the City of Toronto may consider to mobilize capital necessary for Program scale-up. City staff are defining and evaluating these options in order to make recommendations in a future report to address the long-term financial sustainability of the Programs.

Some of the options currently being explored include:

**Green Debentures:** The proceeds from Green Debentures issued by the City of Toronto could serve as the funding source (i.e. debt financing) for future tranches. The types of eligible projects/technologies supported by Toronto's Green Debenture Framework are well aligned with HELP and Hi-RIS's current offerings. Green Debentures have the potential to raise adequate capital to meet the funding needs anticipated by program scale-up.

**Securitization:** The City could pool together a series of 'special charges' imposed on participating HELP and Hi-RIS properties and sell notes backed by these assets to investors with the proceeds of sale being allocated to fund future projects.

**Third-Party Finance Partnership:** The City could enter into a partnership with a third-party financing entity who would provide the capital directly to projects. In turn, the City would impose special charges on the benefitting properties and facilitate repayment via the property tax bill.

**Infrastructure Ontario:** Municipally-led local improvement charge programs are deemed eligible for funding by Infrastructure Ontario. Staff will explore funding at more affordable rates and flexible terms offered by Infrastructure Ontario.

**GreenON:** Ontario's 'green bank' has signalled that future offerings for homeowners and businesses might include direct project investment, in addition to credit enhancements such as interest rate buy downs and loan loss reserve.

## **Engaging an External Entity to Lead Marketing and Outreach & Streamlining Internal City Administrative Processes**

City staff managing HELP and Hi-RIS have undertaken aggressive marketing and outreach campaigns in 2017 which resulted in increased levels of program uptake and participation. It was not necessary to engage an external entity for marketing as City staff for both programs have updated their marketing concepts and materials to better attract participants. City staff will reassess needs in 2018.

City staff are currently working with IT to set up an automated application process and will launch this tool for prospective applicants and participants mid-year 2018. The tool will streamline the Application, Funding Request and Project Completion steps of the program, making it easier for property owners to submit forms and for City staff to track and monitor participant data. This will be key to expediting the process as application numbers continue to increase.

### **Roster of Pre-qualified Contractors**

One of the barriers of facing homeowners when undertaking home energy improvements is the hassle and time that it takes to find a trustworthy contractor. Currently there is list of qualified HVAC contractors that the Independent Electricity System Operator (IESO) has available for all Toronto homeowners, in support of their Heating and Cooling Rebate program. Similarly, earlier in 2018, the Ontario government through the Green Ontario Fund (GreenON) published a list of qualified contractors specializing in windows, insulation, air source or ground source heat pumps and air sealing. This list also supports homeowners in accessing GreenON rebates for energy improvements. With lists already publicly available, there is currently no need for the City to develop a roster of contractors as well. HELP and Hi-RIS can still benefit from further engagement with Toronto service-area contractors, providing them the information and resources needed to promote the Programs to their eligible clients

### **3. Approaches for Enhancing Stakeholder Engagement**

HELP and Hi-RIS have undertaken significant efforts jointly and separately to engage the target markets for each program.

A significant challenge experienced by homeowners in acquiring consent from mortgage lenders remains ongoing and represents the primary cause for HELP dropouts. A key challenge identified by City staff is that various laws and policies appear to impede the willingness of the Canadian Mortgage and Housing Corporation (CMHC) to extend mortgage insurance to cover local improvement charges. These barriers prevent property owners with default-insured mortgages from more freely participating in the Programs. City staff continue to advocate to senior levels of government for policy and regulatory changes necessary for implementation, such as changes to mortgage insurance rules that currently inhibit consent from financial institutions. Additionally, staff continue to work alongside the Canadian Bankers Association towards more streamlined processes with their member banks regarding the intake and qualification of HELP lender consent applications.



## **Developing Deeper Connections and Leveraging Existing Opportunities**

HELP and Hi-RIS continue to build and maintain strong relationship with industry stakeholders such as local utilities (Enbridge Gas, Independent Electricity System Operator (IESO), Toronto Hydro), energy audit service organizations and apartment sector associations. Both HELP and Hi-RIS have also leveraged internal and external opportunities to promote their respective programs through cross promotional materials, outreach and educational events. HELP program staff engaged the Green Ontario Fund (GreenON) to have Program information included in their 'one stop' website for homeowners. The GreenON platform has significantly contributed to a spike in HELP applications since January 2018.

Hi-RIS has maintained strong connections with the industry including apartment sector associations and local utilities to support program uptake and broader Tower Renewal Program goals. For example, staff leveraged existing relationships with Municipal Licensing and Standards (ML&S) to deliver promotional materials to approximately 3,500 building owners, reached out to Councillors with program information and capitalized on an opportunity to collaborate with the Environment & Energy Division on projects and events. The combination of these efforts have resulted in a doubling of applications to the program to date.

## **Advocate to the Federal Government & Integrate with New Programs**

The Green Ontario Fund (GreenON) expanded funding for conservation programs for homeowners and through HELP, homeowners are seamlessly able to stack all available incentives offered by the government and utility companies<sup>2</sup>.

GreenON has also announced the launch of a Challenge Fund to provide project funding for deep energy efficiency retrofits in buildings. City staff have identified the Challenge Fund as a significant opportunity for a multi-municipality partnership to improve aging apartment towers while decreasing GHG emissions, and continue to engage with the Province and other municipalities to explore the full array of options available.

The Environment and Energy Division was the successful recipient of a \$200,000 grant from the Partners in Climate Action (PiCA) program offered by the Ministry of Environment and Climate Change in late 2017. With the aim of reducing residential energy consumption in three Toronto neighbourhoods, EED's project will test various methods to motivate uptake in energy efficiency incentives and LIC financing. This project will be led by Live Green Toronto and seeks to integrate with the key objectives of TransformTO.

In the Climate Action Plan, the Province of Ontario has committed funding to retrofit multi-unit residential buildings. This includes social housing apartments and specific incentives for apartment buildings. The Tower Renewal Program will continue to engage on the delivery of these incentive programs.

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<sup>2</sup> Homeowners can participate in multiple rebate programs, so long as they don't receive more than one rebate for the same type of product via multiple programs

The forthcoming Resilience Strategy for the City of Toronto has identified older apartment towers as an area of focus. The Tower Renewal Program is engaged in the development of the strategy and will pursue opportunities to advance Hi-RIS while supporting this strategy.

HELP and Hi-RIS have been successful in supporting the City to meet a range of strategic priorities including:

- maintaining housing affordability
- improving housing quality
- increasing energy efficiency
- reducing GHG emissions
- job creation

These impacts are reinforced with the increase in participation and uptake experienced by both Programs since the adoption of the refinements in April 2017 ([PE18.4/2017](#)). With the extension until December 2019, the Programs can capture the full benefit of increased uptake, and staff can evaluate market receptivity and measure impact.

Staff will report back to City Council in the second quarter of 2019 with a business case for a full-scale program, if appropriate, that will be based on continued evaluation of program impacts and stakeholder consultation.

## **CONTACT**

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## **SIGNATURE**

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