

**Subject: Status Update and Amendments to the Better Homes Ottawa Loan Program**

**File Number: ACS2023-PRE-EDP-0014**

**Report to Finance and Corporate Services Committee on 4 April 2023  
and Council 12 April 2023**

**Submitted on March 2, 2023 by David Wise, Director, Economic Development and Long Range Planning, Planning, Real Estate and Economic Development Department**

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**Ward: Citywide**

**Objet : Mise à jour et modifications du Programme de prêts Maisons durables Ottawa**

**Dossier : ACS2023-PRE-EDP-0014**

**Rapport au Comité des finances et des services organisationnels**

**le 4 avril 2023**

**et au Conseil le 12 avril 2023**

**Soumis le 2 mars par David Wise, Directeur, Développement économique et planification à long terme, Services de la planification, des biens immobiliers et du développement économique**

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**Quartier : À l'échelle de la ville**

## **REPORT RECOMMENDATION(S)**

**That the Finance and Corporate Services Committee recommend that Council:**

- 1. Approve the amendments to the Better Homes Ottawa Loan Program as described in this report;**
- 2. Approve the Better Homes Ottawa Incentive Program as detailed in Document 1 and direct staff to implement the Better Homes Ottawa Incentive Program; and**
- 3. Delegate the authority to the Chief Financial Officer and the General Manager of Planning, Real Estate, and Economic Development to implement certain changes to the Better Homes Ottawa Loan Program as detailed in this report.**

## **RECOMMANDATION(S) DU RAPPORT**

**Que le Comité des finances et des services organisationnels recommande au Conseil :**

- 1. d'approuver les modifications du Programme de prêts Maisons durables Ottawa telles qu'elles sont décrites dans le présent rapport;**
- 2. d'approuver le programme d'incitatifs lié à Maisons durables Ottawa, comme l'explique en détail le document 1, et demander au personnel de mettre en œuvre le programme;**
- 3. de déléguer le pouvoir au chef des finances et au directeur général de la Planification, de l'Immobilier et du Développement économique afin qu'ils puissent mettre en place certains changements au Programme de prêts Maisons durables Ottawa, tels qu'ils sont décrits dans le présent rapport.**

## **EXECUTIVE SUMMARY**

This report responds to Council's direction to report back to Committee and Council on the results of the Better Homes Ottawa Loan Program and recommend next steps. This report and its attached document include:

1. A description of the role building retrofits play in meeting Ottawa's target to reduce greenhouse gas (GHG) emissions 100 per cent by 2050 and the opportunity for the municipality to catalyze those retrofits;
2. The results to date of the Better Homes Ottawa Loan Program;

3. Recommended amendments to the Better Homes Ottawa Loan Program; and
4. A recommended Better Homes Ottawa Incentive Program.

### **Assumption and Analysis**

Existing homes were the source of 26 per cent of GHG emissions in Ottawa in 2021. Since most of these emissions are associated with space heating and water heating, effective emissions reduction programs for Ottawa will focus on these two energy uses. The Energy Evolution Strategy calls for a 70 per cent thermal energy reduction and 100 per cent greenhouse gas (GHG) reduction in all homes over business as planned by 2040.

Municipalities are uniquely able to offer financing tied to a property using a Local Improvement Charge (LIC) mechanism under the *Municipal Act (2001)*. Ontario Regulations 322/12, 323/12 and 586/06 authorize municipalities to use LICs for improvements in energy efficiency, renewable energy generation and water conservation when it supports municipal goals and policies.

Experience from leading jurisdictions has shown that LIC financing programs are a key tool in the municipal toolbox for triggering deep energy retrofits in buildings. The main benefit to the building owner under such programs is tying the loan repayment to the property tax bill. When the property is sold, the new owner continues the LIC payment and continues to benefit from the energy retrofit. From the municipal government perspective, the payment obligation attaches to the benefitting property, not the owner, and is secured by a statutory lien with priority status. Property owners have the option to repay the loan over the term of the agreement or repay in one lump sum. As governments have access to competitive interest rates and long repayment terms, these can be passed on to property owners.

The Better Homes Ottawa Loan Program (BHOLP) has been very successful to date. The program launched in November 2021 with zero interest loans and was quickly oversubscribed. In June 2022, an additional \$15 million of capital was added to the loan pool to keep up with demand. To date, over 50 applications are received monthly, and participants are reducing the GHGs from their homes by 40 per cent on average through their retrofits. Lessons have been learned in the first year of the Program and staff recommend amendments to increase the impact and accessibility of the Program.

## **Financial Implications**

The total annual budget for this Program has been approximately \$700,000. This is projected to increase to \$900,000 by 2025. A Loan Loss Reserve Fund was created to backstop loan defaults and program delivery cost overruns. The estimated value of the Loan Loss Reserve Fund will be approximately \$2 million by 2025. Administrative fees cover the cost of staff time and delivery agent agreements to implement the Program. Administrative fees also contribute to the Loan Loss Reserve Fund. The incentive program will be funded through a grant from the Federation of Canadian Municipalities as well as a portion of the 2021 Hydro Ottawa Dividend Surplus that Council allocated to low-income home retrofits.

The Incentive Program has an existing budget allocation of \$1.1 million, made up of \$600,000 from the FCM grant and \$500,000 from the 2021 Hydro Ottawa Dividends Surplus.

## **Public Consultation/Input**

Staff input, BHOLP participant surveys and experiences of the service delivery team have informed the recommendations and next steps in this report. Conversations with other municipalities offering similar programs have also informed the recommendations contained in this report.

## **RÉSUMÉ**

Le présent rapport fait suite à la demande du Conseil de présenter à son intention et à celle du Comité les résultats du Programme de prêts Maisons durables Ottawa ainsi que les prochaines étapes recommandées. Le rapport et le document connexe exposent :

1. le rôle que joue la modernisation des bâtiments dans l'atteinte de l'objectif d'Ottawa de réduire de 100 pour cent les émissions de gaz à effet de serre (GES) d'ici 2050 et la possibilité pour la municipalité de promouvoir la modernisation des bâtiments;
2. les résultats à ce jour du Programme de prêts Maisons durables Ottawa;
3. les recommandations visant la modification de ce programme;
4. le programme d'incitatifs recommandé dans le cadre de Maisons durables Ottawa.

## **Hypothèses et analyse**

En 2021, les maisons ont produit 26 pour cent des émissions de GES à Ottawa. Puisque la plupart de ces émissions proviennent du chauffage des espaces de vie et de l'eau, les programmes visant la réduction efficace des émissions à Ottawa cibleront ces deux sources d'émissions. La stratégie Évolution énergétique vise à réduire de 70 pour

cent des besoins en énergie thermique et de 100 pour cent les émissions de GES de toutes les maisons d'ici 2040, selon le scénario des activités planifiées.

Les municipalités qui veulent offrir un financement lié à la propriété ne peuvent le faire qu'au moyen d'un programme de taxes d'améliorations locales aux termes de la *Loi sur les municipalités (2001)*. Les règlements de l'Ontario 322/12, 323/12 et 586/06 permettent aux municipalités de prélever une taxe d'améliorations locales pour promouvoir l'efficacité énergétique, la production d'énergie renouvelable et la conservation de l'eau en accord avec les objectifs et les politiques municipaux.

L'expérience des administrations pionnières montre que les programmes de taxes d'améliorations locales sont un outil précieux pour les municipalités qui cherchent à promouvoir des travaux d'amélioration énergétique substantiels. Pour les propriétaires, ces programmes ont pour principal avantage de lier le remboursement du prêt au relevé d'imposition foncière. Ainsi, en cas de vente, c'est le nouveau propriétaire qui continue de payer les taxes d'améliorations locales tout en bénéficiant des améliorations énergétiques apportées au bâtiment. Du point de vue de la municipalité, l'obligation de paiement est liée à la propriété et non au propriétaire : elle est garantie par un privilège d'origine législative avec statut prioritaire. Les propriétaires peuvent soit échelonner leurs paiements sur la durée de l'entente ou rembourser le tout en un paiement forfaitaire. À ce titre, les administrations publiques bénéficient de taux d'intérêt concurrentiels et de longues périodes d'amortissement, des avantages dont elles peuvent aussi faire profiter les propriétaires.

Le Programme de prêts Maisons durables Ottawa s'est avéré très efficace jusqu'à maintenant. Lancé en novembre 2021 avec une offre de prêts sans intérêts, il a rapidement vu sa capacité dépassée en nombre de demandes soumises. Ainsi, en juin 2022, 15 millions de dollars ont été injectés dans le bassin de financement afin de répondre à la demande. À ce jour, nous recevons plus de 50 demandes par mois, et les participants réduisent en moyenne de 40 pour cent les émissions de GES de leur maison grâce à leurs travaux d'amélioration. À la lumière des leçons tirées durant la première année, le personnel propose des modifications pour accroître les retombées et l'accessibilité du programme.

### **Répercussions financières**

Le budget annuel total du programme est d'environ 700 000 \$ et devrait atteindre 900 000 \$ d'ici 2025. Un fonds de réserve pour pertes sur prêts a été créé pour atténuer l'incidence des défauts de paiement et des dépassements de coûts liés à la prestation du programme. On estime que le fonds de réserve s'élèvera à environ deux millions de dollars d'ici 2025. Les frais administratifs servent à payer le personnel et les ententes des agents de prestation pour la mise en œuvre du programme. Ils sont également mis

à contribution pour constituer le fonds de réserve. Le programme incitatif envisagé sera financé par une subvention de la Fédération canadienne des municipalités ainsi qu'une partie de l'excédent des dividendes d'Hydro Ottawa de 2021 que le Conseil avait alloué aux travaux de modernisation résidentielle pour les propriétaires à faible revenu.

### **Consultations publiques et autres contributions**

Les recommandations et les prochaines étapes présentées dans le rapport ont été orientées par la rétroaction du personnel, les sondages menés auprès des participants au programme, les expériences rapportées par l'équipe de prestation de services ainsi que les discussions tenues avec d'autres municipalités offrant des programmes semblables.

## **BACKGROUND**

### **Council Direction**

In May 2014 ([ACS2014-COS-ESD-0011](#)) and February 2016 ([ACS2016-COS-ESD-0005](#)), Council received an assessment of Local Improvement Charges (LIC) to finance renewable energy and energy efficiency retrofits in buildings. At the time, staff recommended ongoing review of the program's viability by monitoring programs in other municipalities and consulting with federal and provincial governments on funding opportunities.

In April 2019, Council declared a climate emergency and directed staff to:

- Develop climate change mitigation and adaptation priorities for the next five years (2019-2024) to embed climate change considerations across all elements of City business; and
- Work with senior levels of government to accelerate ambition and action to meet the urgency of climate change and provide additional resources for municipalities and the public to reduce their greenhouse gas emissions and build resiliency to climate impacts.

In January 2020, Council approved the Climate Change Master Plan ([ACS2019-PIE-EDP-0053](#)) and set a new target to reduce community greenhouse gas (GHG) emissions 100 per cent by 2050. The Better Homes Ottawa Loan Program helps advance two of the eight priority actions: implementing Energy Evolution and encouraging private action through education, incentives, support, and advocacy to senior levels of government.

In July 2020, Council directed staff to apply to the Federation of Canadian Municipalities (FCM) for funding and approved the Better Homes Loan Program in principle ([ACS2020-PIE-EDP-0020](#)). If successful, staff were also directed to:

- Report back to Council for approval of the final Better Homes Ottawa Loan Program;
- Update the city's current Local Improvement Charge (LIC) policy to include energy efficiency, renewable energy and water conservation in alignment with municipal goals and policies in accordance with provincial legislation; and
- Secure external financing to launch the program, as required.

In October 2020, Council approved the Energy Evolution Strategy ([ACS2020-PIE-EDP-0036](#)). The Residential Building Retrofit Accelerator Program (now called the Better Homes Loan Program) and Local Improvement Charges are two of 20 Energy Evolution projects to meet Ottawa's greenhouse gas reduction targets.

In March 2021, the Federation of Canadian Municipalities announced that Ottawa was successful in securing \$12,169,500 in Green Municipal Fund Community Efficiency Financing to launch and capitalize the Better Homes Loan Program. This consisted of a grant of \$4,056,500 and a loan of \$8,113,000. Of the grant funding, \$300,000 was allocated to incentives for heat pumps and another \$300,000 was allocated to retrofit managers.

In June 2021, Natural Resources Canada (NRCan) launched the [Greener Homes Grant Program](#), which offers homeowners \$5,000 grants for home energy retrofits and \$600 for home EnerGuide assessments. NRCan also released \$10 million for training energy advisors. As a result of these programs, demand for energy assessments and energy retrofits surged.

In July, 2021 Council directed staff to launch the Better Homes Ottawa Loan Program ([ACS2021-PIE-EDP-0029](#)) with the FCM funds and a \$3.877 million loan from VanCity Investment Bank. The Program was launched in November 2021.

Due to rapid uptake, in May 2022, Council directed staff to seek up to an additional \$30 million in capital from VanCity Investment Bank to recapitalize the Better Homes Ottawa Loan Program ([ACS2022 OCC FED 0005](#)). To date, \$15 million of this has been drawn and is being offered at 4.33 per cent interest to applicants.

In July 2022, Council approved a prioritized the Hydro Ottawa Dividend Surplus Spending Plan ([ACS2022-PIE-EDP-0023](#)) which included \$500,000 in rebates for

low-income housing for heat pumps and building envelope improvements to remove barriers that prevent participation in the Better Homes Ottawa Loan Program.

## **DISCUSSION**

### Rationale

According to the Intergovernmental Panel on Climate Change (IPCC) “rapid, far reaching and unprecedented changes in all aspects of society” are required to avoid catastrophic impacts associated with climate change”.<sup>1</sup>

The buildings sector is currently the largest contributing sector to greenhouse gas (GHG) emissions in Ottawa and the largest energy consumer. Residential buildings alone contributed 26 per cent of Ottawa’s emissions in 2021.

Integrated emissions modeling done through Energy Evolution shows that the building stock must be transformed the following ways over the next 30 years to achieve the necessary GHG reductions:

- Small commercial and residential buildings must be retrofit for 70 per cent heating savings and 30 per cent electrical savings at a rate of 27 per cent of buildings by 2030 and 98 per cent by 2040;
- 20 per cent of roofs must have solar photovoltaic systems (PV) by 2050;
- 560,350 residential heat pumps must be installed by 2040; and
- 516,913 electric hot water heaters must be installed by 2050.

Financial analysis completed through Energy Evolution identified that significant incremental investment is needed to achieve these retrofit measures community-wide. Due to the scale of the investments, the ownership structure, and the other competing priorities for municipal investments, it is expected that the vast majority of the investments in retrofits will be private investments. There is, however, a role for municipalities to play in catalyzing these investments and driving down the costs to property owners while optimizing GHG reductions from the investments. One way to do so is through the Local Improvement Charge (LIC) mechanism, which ties a repayment obligation to a specific property. This mechanism was leveraged for municipally financed retrofits of homes through the Better Homes Ottawa Loan Program

### **Experience to Date of the Better Homes Ottawa Loan Program**

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<sup>1</sup> IPCC Press Release. Summary for Policymakers of IPCC Special Report on Global Warming of 1.5°C approved by governments. October 8, 2018.  
[https://www.ipcc.ch/site/assets/uploads/2018/11/pr\\_181008\\_P48\\_spm\\_en.pdf](https://www.ipcc.ch/site/assets/uploads/2018/11/pr_181008_P48_spm_en.pdf)



The Better Homes Ottawa Loan Program (BHOLP) launched in November 2021 with zero interest loans. The Program had significantly higher uptake than projected and was oversubscribed by April 2022. In June 2022, an additional \$15 million of capital was added to the loan pool to keep up with demand. By December 31, 2022, over 320 loans were initiated, 55 were completed, 315 audits were completed, and over 700 expressions of interest were submitted for potential future projects. Demand was higher while 0 per cent interest loans were available and before the federal zero interest retrofit loan program was launched, but the City continues to receive an average of over 50 applications per month despite the introduction of market interest rates and limited promotion.

The continued demand demonstrates that the Program helps overcome some of the most significant barriers to deep energy retrofits of homes including:

- Ownership term uncertainty and long payback period;
- Limited understanding of how energy efficiency affects real estate value;
- Limited knowledge and motivation to retrofit;
- Access to long-term, fixed cost financing; and
- Investing in equipment that will continue to emit GHGs beyond 2050.

Experience in Ottawa to date has shown that retrofits under the BHOLP have achieved approximately 40 per cent reductions in GHGs, which is higher than the 30 per cent projected based on previous programs. Although this is not enough to meet the 100 per cent GHG reduction target set for residential buildings in Ottawa under the Energy Evolution Strategy, it is a good start that can be improved upon through the amendments recommended in this report and supported through decarbonization of the provincial electricity grid.

### **Recommendation 1: Implement the amendments to the Better Homes Ottawa Loan Program as recommended in this report**

Staff have identified some ways to improve the effectiveness of the BHOLP. Each of the proposed amendments are described below and include details on the current Program approach, issues or challenges identified in the first year of the Program, and recommended changes to improve uptake, particularly for income-qualified applicants.

Based on feedback from potential program applicants, utilities, and service providers, staff believe that barriers to income-qualified applicants include:

- The definition of income qualified is too low;
- Managing retrofits takes more time than many residents have available; and
- The cost of high-quality heat pumps is too high.

Staff recommend that the BHOLP income eligibility criteria be amended to expand the income threshold to allow qualified homeowner and landlords who commit to providing affordable units for 10 years to qualify for 0 per cent interest loans, free project management services, and additional heat pump incentives.

**Amendment #1: Redefine the eligibility criteria for income-qualified support services**

When BHOLP was launched, it included access to 0 per cent loans, waived administration fees, and retrofit management services to income-qualified applicants. The goal was to support low-income households, who often have limited financing options and limited time, in taking on energy efficiency retrofits. Despite these measures, to date there have been very few income-qualified applicants because the definition of income qualified is low and the market segment of homeowners within that segment is very limited in Ottawa.

The current income threshold is aligned with Enbridge's Home Winterproofing Program (income thresholds are \$42,437 for single person households, \$60,014 for two person households, etc.). Most residents who meet this definition are renters, not homeowners. Under the current eligibility criteria, only applicant must be the owner; neither renters, nor landlords are eligible. Since most residents who meet this definition are renters they are ineligible for BHOLP.

Staff recommend that the City continue to use the Enbridge Winterproofing Program definition for income-qualified and expand the eligibility criteria to include landlords who commit to maintaining affordable units for 10 years also be eligible for the Better Homes Ottawa Incentive Program.

Affordable units would be defined as those with rental rates below the Average Market Rent per number of units, based on the Canada Mortgage and Housing Corporation (CMHC) annual Rental Market Report. That report defines average market rental rates in specific zones defined by CMHC across the City of Ottawa and would be updated annually. Affordability of units would be verified using a declaration of rental rates from the property owner upon application and annually thereafter. This definition and verification approach aligns with that of the Ontario Renovates Program. The Program delivery partner would verify the eligibility of applicants and the City would verify the affordability of units for the remainder of the 10-year term. If the affordability conditions or reporting requirements are not met, the loan will be due in full at that time.

The risk of raising rents based on unit improvements will be mitigated by recalling the full value of the loan if the rental rate ever exceeds the Average Market Rent.

The risk of eviction of tenants for retrofits will be mitigated by recalling the full loan value if the rental rate ever exceeds the Average Market Rent. Also, information on how to retrofit with tenants in place will be made available to participating landlords.

**Amendment #2: Amend loan disbursement amounts to 50 per cent disbursement up front, rather than 30 per cent as it currently stands.**

Even for applicants that are not income qualified, cashflow management is a challenge for some applicants. With rising costs due to supply chain issues and inflation, many contractors and services providers are requiring larger deposits. Currently, 30 per cent of the loan value is paid up front to applicants. Staff recommend amending this to 50 per cent. This will increase the accessibility of the Program, as applicants will have to cover less of the upfront costs associated with their retrofit projects, such as down payments and deposits requested from contractors. The risk of loan defaults is mitigated by the Reserve Fund and the City's ability to add the deposit value to the property tax bill via the LIC mechanism.

**Amendment #3: Authorize the third-party delivery agent to pay contractor invoices for all participants using the retrofit manager service.**

Feedback from some participants and service delivery providers is that cashflow management has been a deterrent for some participants. The City currently provides a deposit up front and the balance of the loan is paid after a follow up energy audit is completed, final paperwork is reviewed, and a cheque is mailed. It is common for a homeowner to experience a delay of 2 to 3 months between when their final contractor invoice is due, and they receive the balance of their Better Homes Loan from the City.

The BHOLP currently offers a retrofit manager service, wherein a third-party certified energy manager works with the property owner to develop a retrofit plan, selects contractors, and oversees project implementation. This service is available for free for property owners qualifying under the income qualified stream, and as a fee-for-service for those who do not meet the income qualified thresholds.

To ensure cashflow is not a barrier, it is recommended that the retrofit managers be authorized to pay contractor invoices directly. The retrofit manager service will be provided free of charge for income qualified applicants and under a fee-for-service model for others.

For homeowners who opt in for retrofit managers, the City would pay the loan deposit to the Program delivery agent instead of the homeowner. The delivery agent would then pay contractors' invoices in full upon verification by the retrofit manager. The delivery agent would then receive the final loan disbursement from the City after all the existing

conditions are met. Interest would be charged as of the date of disbursement to the delivery agent.

The risk of loan repayment and the administrative burden to the City does not change under this option, as funds are just redirected to the delivery agent rather than the homeowner and the City maintains a Property Owner Agreement with the homeowner through which any funds advanced for their retrofit can be reclaimed under the LIC. The risk to the delivery agent is exposure to interest costs for retrofits that are delayed. That risk is mitigated by the upfront deposit and the 12-month timeline to complete the retrofit.

**Amendment #4: Reduce the minimum loan value from \$15,000 to \$10,000 for all first-time applicants and to \$5,000 for repeat applicants provided it is the same property.**

Achieving net zero emissions for a home often is broken up into a few steps. To increase the accessibility of the Program, staff recommend reducing the loan minimum from \$15,000 to \$10,000. This makes the Program more accessible, and also accounts for increased grant and rebate programs available to property owners that have become available since the BHOLP was launched. For homeowners applying for a second loan on the same property, it is recommended that the \$15,000 minimum loan value be reduced to \$5,000.

Experience to date suggests BHOLP applicants are achieving approximately 40 per cent GHG reductions with their retrofits. Given that 100 per cent reductions is ultimately required, many of these homeowners may wish to use the BHOLP multiple times. This will allow homeowners to take on energy improvements incrementally, which can be less disruptive and more financially manageable. Currently, homeowners are allowed to apply for the BHOLP multiple times, if they stay under the 10 per cent of property value maximum. To date, no applicants have submitted a second application for the same property, however a small number (approximately five) of applicants have indicated an interest in doing so.

To mitigate the risk of delivery costs exceeding revenues from administration fees, a flat fee equivalent to the admin charge on a \$15,000 loan will be applied to second applications below \$15,000. This has been found to be the average cost per loan administration.

**Amendment #5: Direct staff to amend the Better Homes Ottawa Loan Program maximum loan value calculation to be 10 per cent of property assessed value.**

Currently, applicants to BHOLP can access loans up to a maximum of 10 per cent of the current tax assessed property value, minus the total interest over the 20-year loan term, referred to as the borrowing cost. It is recommended that the maximum loan calculation be simplified as 10 per cent of the current tax assessed property value prior to the cost of borrowing. This gives more predictability for the homeowner in a rapidly changing interest rate environment, as well as more loan capital to undertake more comprehensive home energy retrofits.

The risk of loan defaults is mitigated through building owner payment history checks, title searches, maximum loan to value ratios, Loan Loss Reserve Funds, priority liens on property, and direct debit payments.

**Amendment #6: Raise the maximum loan constraint of \$125,000 for property owners with multiple housing units on one property parcel.**

The program currently calculates the maximum eligible loan an applicant can receive at 10 per cent of tax-assessed property value, up to a maximum of \$125,000. This has meant that for properties with multiple residences on a single property parcel, for example a series of row homes operated by a single entity, their maximum loan value would be capped at \$125,000. This loan amount, when spread out over multiple living units, would not cover the costs associated with the kind of retrofits and greenhouse gas reductions the BHOLP is seeking to achieve.

Staff recommend removing this maximum loan amount of \$125,000 where multiple living units are present on one property parcel, while still maintaining the maximum eligible loan cap of 10 per cent of tax-assessed property value. This would only apply if multiple properties are valued under the same property tax assessment. Should the applicant be applying for the income-qualified supports, as detailed in Amendment #1, the maximum amount of 0 per cent loan capital will be limited to \$250,000 per applicant. This higher loan amount would provide non-profit housing providers with more funding to undertake deep energy retrofits, while ensuring that the 0 per cent loan capital set aside for income-qualified applicants is not used up by larger housing providers. At present, affordable housing providers such as non-profits and housing co-operatives have access to other sources of funding to support emissions-reducing retrofits.

**Recommendation 2: Direct staff to launch the Better Homes Ottawa Incentive Program as detailed in Document 1.**

Staff recommend launching the Better Homes Ottawa Incentive Program, as outlined in Document 1. To date, 38 per cent of participants are installing cold climate heat pumps. Given that effectively all homes that are currently heated with fossil fuels need to switch to a heat pump, it is important that the heat pump experience be a positive one. The

heat pump incentive would be eligible for all BHOLP participants to encourage the installation of high quality, cold climate heat pumps.

The Better Homes Ottawa Incentive Program is designed to support effectiveness and accessibility of the Better Homes Ottawa Loan Program (BHOLP). If approved, two incentive streams would be offered while funding lasts: heat pump incentives and free retrofit manager service, as described in Amendment 3. Heat pump incentives would be available to all BHOLP applicants. For income-qualified homeowners, heat pump incentives would be doubled and they would have access to free retrofit manager service.

The incentives will be available while funds last, which is projected at three years.

The heat pump incentives will depend on the size and type of solution, as follows:

- \$500/ton of ground source heat pump
- \$5/meter of vertical well depth
- \$300/ton of central air source heat pump
- \$200/ton of mini split/multi split air source heat pump

All incentive amounts will be doubled for any applicant who meet the definitions of income-qualified, as described above.

For the Heat Pump Incentives, \$300,000 has been allocated from a grant from the Federation of Canadian Municipalities for all applicants and \$500,000 has been allocated from the 2021 Hydro Ottawa Dividend Surplus for income-qualified applicants.

The retrofit manager services (value estimated at \$5,000/unit) will be provided by the Better Homes Ottawa Loan Program's service delivery agent, currently EnviroCentre, to be stipulated in its service delivery contract with the City of Ottawa.

An additional \$300,000 has been allocated from the FCM grant for retrofit management services for income-qualified applicants. Uptake of the Incentive Program will be tracked and reported as part of the Climate Change Master Plan.

Table 1: Better Homes Ottawa Incentive Program details

<b>Stream</b>	<b>Eligible Applicant</b>	<b>Purpose</b>	<b>Budget Allocated</b>
Heat Pump Incentive	<ul style="list-style-type: none"> <li>• All BHOLP Participants</li> <li>• Adders for Income-Qualified</li> </ul>	Encourage the installation of high-quality heat pumps.	<ul style="list-style-type: none"> <li>• \$300,000 for all applicants</li> <li>• \$500,000 for Income-Qualified</li> </ul>

Retrofit Manager Service	BHOLP Participants who are Income-Qualified	Provide free retrofit project management services.	\$300,000
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**Recommendation 3: Provide delegated authority to the Chief Financial Officer and General Manager of Planning, Real Estate, and Economic Development to make certain changes to the Better Homes Ottawa Loan Program as detailed in this report.**

Regulations and incentives for energy efficiency initiatives are rapidly changing through utility programs and government supports. Technologies and private financing solutions are also fluid with supply chain issues and inflation. At present, the Chief Financial Officer has the delegated authority to:

- Negotiate, execute, and implement the funding agreement with FCM subject to any loan being at zero per cent interest;
- Negotiate and execute funding agreements with VanCity Community Investment Bank;
- Transfer funds, as required, to the Loan Loss Reserve fund established for the BHOLP; and
- Establish and amend interest rates and administrative fees of the BHOLP.

At present, the General Manager of Planning, Real Estate, and Economic Development has the delegated authority to:

- Amend the documents and delivery contracts of the BHOLP; and
- List special charges by-laws on Council agenda.

To ensure that the BHOLP is nimble enough to respond to quickly changing market conditions and meet the objectives of the Program, staff recommend that delegated authority be given to the Chief Financial Officer to revise the following with respect to the Program, as may be required:

- Percent value of loan deposits;
- Minimum and maximum loan values eligible;
- Loan term lengths; and
- Reserve Fund definitions.

Staff also recommend that the General Manager of Planning, Real Estate, and Economic Development be able to amend the BHOLP design elements as defined below, as may be required:

- Income-qualified definitions;

- Eligible retrofit measures and specific loan allotments for them;
- Incentive program design and terms;
- Eligibility requirements for BHOLP applicants including the energy audit requirements; and
- Processes to pre-qualify and pay contractors.

This extends the authorities to revise program documents and delivery contracts previously granted under Council report [ACS2021-PIE-EDP-0029](#).

### **Next Steps**

If approved, staff will amend the program documents and delivery contracts and communicate with program participants accordingly. Staff will also launch a marketing campaign to drive uptake of the incentive programs. Reports on the BHOLP will be provided as part of the annual Climate Change Master Plan updates. When necessary, recapitalization of the loan fund will come to Council along with an assessment of the value of the program to date.

### **FINANCIAL IMPLICATIONS**

The total budget for this project is currently \$31,056,500, which consists of a \$4,056,500 grant and a \$8,113,000 interest free loan from FCM, \$3,887,000 low interest loan from VanCity Community Investment Bank, and \$15,000,000 drawn to date from the \$30,000,000 loan agreement with VanCity Community Investment Bank. No additional funds are being requested from this report.

A Loan Loss Reserve Fund currently totals \$300,000 and forecasted value of approximately \$2 million by 2025. This Fund will be able to be applied to building owner defaulting loans as well as to program cost overruns in future years of the program. FCM grant funding and administrative fees cover the cost of staff time and delivery agent agreements to implement the Program and contribute to a Loan Loss Reserve Fund.

Pending Council approval of the Better Homes Ottawa Incentive Program, a new account will be setup the Heat Pump Incentive with a total budget of \$800,000, with \$300,000 funded from the existing FCM grant funding (account 910680) and \$500,000 from the existing Energy Evolution Hydro Ottawa Dividends (account 908880) that Council allocated to low-income home retrofits in 2021. The Retrofit Manager Service will be funded from existing FCM grant funding (account 910680).



To reduce risk to the City, the Loan Program has been delivered by a third-party agency through a service agreement that is substantially tied to loan distributions. The projected value of this Service Agreement is \$1.1 million over the next three years; however, service agreement terms and staffing can be adjusted throughout that time if the program is underperforming.

In the next three years, staffing requirements are expected to be:

- one existing temporary FTE in PRED to manage the Program
- one existing temporary FTE each in Revenue Services and Financial Services

For every additional 300 applications received, Revenue Services will require one half temporary FTE additional to administer collection activities for the duration of the Program and 20 years after the program ends. Admin fees will cover the cost of the staff as well as the administrative functions provided by the third-party delivery agent.

Regardless of the substantial Loan Loss Reserve Fund, there still exists a risk that staff costs to collect on the loans to building owners over their full 20-year terms will exceed the program revenues and Reserve Fund. In that case, there may be a future budget pressure for staff time to collect on retrofit loans to building owners.

## **LEGAL IMPLICATIONS**

The legal implications of this report pertain to the Incentive Program which follows the requirements of the Grants and Contributions Policy. The delegated authorities for staff are compliant with the Delegation of Authority Bylaw.

## **COMMENTS BY THE WARD COUNCILLOR(S)**

This is a city-wide report.

## **ADVISORY COMMITTEE(S) COMMENTS**

There are no advisory comments associated with this report.

## **CONSULTATION**

Staff input, BHOLP participant surveys as well as the experiences of the delivery team have informed the recommendations in this report. Conversations with other municipalities offering similar programs has also informed the recommendations contained in this report.

## **ACCESSIBILITY IMPACTS**

The City of Ottawa is committed to ensuring accessibility for persons with disabilities and older adults. City of Ottawa programs and services follow the City's Accessibility Policy, Accessible Formats and Communication Supports Procedure, the Accessibility for Ontarians with Disabilities Act (2005) and the Integrated Accessibility Standards Regulation, O.Reg. 191/11.

The Better Homes Ottawa Loan Program was designed with feedback from Ontario Renovates, an accessibility grant program for low-income seniors and people with disabilities, to add energy efficiency retrofits as a turn-key service for qualifying homeowners. The BHOL Program provides recommendations on accessibility improvements in housing when providing information on renovation options.

The proposed amendments do not change the Council approved design considerations related to accessibility. The amendments are intended to increase accessibility for low-income homeowners and tenants by providing increased incentives and additional retrofit management support. If approved, the Program will also provide guidance to landlords on how to implement retrofits with tenants in place with a requirement to maintain affordable housing units for 10 years. This requirement will benefit people with disabilities or older adults seeking accessible and affordable housing accommodation.

The Incentive Program will be offering a free retrofit manager to income qualified homeowners and affordable unit providers. The retrofit manager will be able to ensure that the operational costs do not increase for tenants. They can accomplish this a few ways:

1. Supporting applications to relevant incentive programs from utilities including Hydro Ottawa/One and Enbridge;
2. Calculating that equipment selected will not result in a higher operating cost to tenants. The City's heat pump incentives, which are doubled for income qualified and affordable units, are specifically on the most energy efficient equipment that has been shown to match or reduce the operational cost as compared to natural gas heating.

## **ASSET MANAGEMENT IMPLICATIONS**

There are no asset management implications associated with the recommendations of this report.

## **CLIMATE IMPLICATIONS**

To date, the Better Homes Ottawa Loan Program has reduced emissions by 152 TCO<sub>2</sub> per year and is projected to reduce emissions by another 3,600 TCO<sub>2</sub> per year by the end of 2025 with the amendments as proposed in this report.

Although the Better Homes Ottawa Loan Program is primarily targeted at reducing emissions, eligible measures include climate adaptation improvements. These measures can make buildings more resilient to such weather impacts as hotter and drier summers and extreme weather events.

## **ECONOMIC IMPLICATIONS**

The Better Homes Ottawa Loan Program is accelerating home energy retrofits, which increased demand for contractors and tradespeople locally. It also reduces the economic vulnerability of homeowners to fuel price increases and saves them money over the loan term.

## **ENVIRONMENTAL IMPLICATIONS**

The Better Homes Ottawa Loan Program directly contributes to the Environmental Stewardship strategic outcome to grow and protect a healthy, beautiful, and vibrant city that can adapt to change within the City's 2019-2022 Strategic Plan.

## **RISK MANAGEMENT IMPLICATIONS**

There are risks with offering the BHOLP. These risks and their mitigation measures are detailed below:

- Low participation uptake risk: If income-qualified applicants do not see the value in the incentive program or BHOLP offerings, there may be limited uptake. This risk will be mitigated by marketing, attractive loan terms, incentive programs, and homeowner support.
- Ongoing collections cost risk: Loans are offered for 20 years, hence there will be a role for staff in Revenue Services to continue to administer and collect on loans from building owners well after the end of the BHOLP. Revenues generated through admin fees and interest rate spreads may not be sufficient to cover these future costs. The Loan Loss Reserve Fund mitigates this risk as it can be used for ongoing staff costs.
- Loan default risk: Homeowners may default on their loan repayments to the City. This risk is mitigated through building owner payment history checks, title searches, maximum loan to value ratios, Loan Loss Reserve Funds, priority liens on property, and direct debit payments.

Tenant eviction risk: If landlords invest in improvements of their units, they may want to

evict tenants to complete the work or to charge higher rent. This risk is mitigated by recalling the full loan value if the rental rate ever exceeds the Average Market Rent. The Program will also provide guidance to landlords on how to implement retrofits with tenants in place.

### **RURAL IMPLICATIONS**

The Program will be eligible to all Part 9 private residential buildings in Ottawa, including those in rural areas.

### **SUPPORTING DOCUMENTATION**

Document 1 – Proposed Better Homes Ottawa Incentive Program

### **DISPOSITION**

Planning, Real Estate and Economic Development will coordinate the Program amendments including participant documents and service delivery contract updates. Relevant changes will be communicated with participants. PRED will lead and will involve Finance and Revenue to implement the LIC payments, charges, and collections.