High Performance Development Standard Incentives Options

This document is intended to provide an overview of incentives as they relate to the High Performance Development Standard (HPDS) this includes the following.

- Role of incentives
- Types of incentives
- Order of magnitude of budget required
- Potential sources of funding for incentives
- Timing
- Next steps

Role of incentives

The tiered approach to the HPDS lays out the path towards hitting GHG emission reduction targets related to operational energy of buildings and advancing sustainable design criteria. The lowest tier is mandatory and is aimed at changing the way most projects are planned and built. The upper tiers are aimed at setting direction and building capacity for continued improvement. The upper tiers are not expected to reach critical mass of the industry, once that has been achieved industry is at a point where the tiers should be moved up. The upper tiers are expected to be the top 10-20% of building projects. Through encouraging top performing projects the city gains local demonstration projects and experienced professionals. These industry assets are important to enable the whole industry to continue to shift forward.

Types of Incentives

- **Development Charge Incentives**

  Development charges are one-time fees levied by municipalities on new residential and non-residential properties to help pay for a portion of the growth-related capital infrastructure requirements.

  - **Development Charge Refund** this is when a portion of the development charge is returned to the proponent following project completion and verification of higher-level standards. Challenges exist for the City to use this incentive option as Development Charges are used to pay for infrastructure projects. This is the incentive option used by the City of Toronto to incentivize the Toronto Green Standard Tier 2.

  - **Development Charge Payment Delay** this is when an adjustment to the due dates for development charges is made, potentially reducing project financing costs for the project. For the City while this changes the timing of payments but it does not impact the net amount being collected. Challenges exist with this strategy as the incentive has been provided prior to the implementation having been confirmed.

- **Local Improvement Charges (LIC)**

  Local Improvement Charges are charges that a municipality levies against properties to recoup the costs of an improvement that was constructed for the specific benefit of those properties.

  - **LIC Financing to the builder-**. In this case the City would support the investment in low carbon solutions to be paid off by the builder over the course of the project or in the case of an owner constructed project the loan may be repaid over a longer period of time. Often these are able to be offered at a low interest rate. This tool leverages some of the financing options available to municipalities but, has risks similar to other construction loans. In addition, this option provides the incentive before the implementation has been verified, if a project were to not realize it's goals there are limited mechanisms for the City to pursue to realize the measures of the incentive agreement or penalize the proponent.
  - **LIC financing to the home buyer** Local Improvement Charges are charges that a municipality levies against properties to recoup the costs of an improvement that was constructed for the specific benefit of those properties. In this case this could be support low carbon emission homes to offset to incremental cost to the homeowner. These costs would be recovered via property tax bill over the course of a number of years. This provides the benefit of helping homeowners with financing without having additional cost on their mortgage and could be provided at a lower interest rate. This would result in moderate net monthly impact to the homeowners expenses. There would need to be guarantees with the builder to pursue should the goals of the project not be realized. This has not been done on new homes before and it is another layer to add on to a complicated purchasing process for homebuyers, which may deter some residents.

- **Community Improvement Plan (CIP)** A Community Improvement Plans or CIP is a tool that allows a municipality to direct funds and implement policy initiatives toward a specifically defined project area. Section 28 of the Planning Act gives municipalities that have enabling policies in their official plans, the ability to prepare Community Improvement Plans.

  Community Improvement Plans are intended to encourage revitalization initiatives and/or stimulate development and redevelopment. Once implemented, the Plan allows municipalities to provide tax assistance, grants or loans to assist in the revitalization of lands and/or buildings within the defined Community Improvement Project Area. This is the simplest incentive tool for municipalities but requires a confirmed funding source. The tax increment rebates are one way to fund CIPs and has been use on other Ottawa CIPs including the Brownfield Redevelopment CIP.

- **Concierge Staff Planning Support-** This would take some form of dedicated staff support to help Tier 2 projects through the planning process. This could be of particular benefit for projects proposing innovative designs that would require buy and input from many departments across the City.
- **Expedited Review-** shorter timelines for review of planning applications. This kind of incentive is difficult to guarantee as the City has limited control over a number of factors in development review including quality and completeness of application files, and approval required by other bodies such as conservation authorities.
- **Feasibility Study Grant**- grant to support evaluation of new design solutions. This can be a helpful tool particularly to drive uptake of a incentive program supporting the initial phases enabling projects to explore new ideas or solutions at a reduced risk. To maximize implementation is it best paired with an incentive that is tied to the full adoption of the strategies.
- **Integrated Design Support**- a program to support design teams improving integration through coordinating and paying for design charettes or similar. There are existing programs of this nature through the Enbridge Savings by Design program.
- **Training** City support in providing training for new building and design techniques and or the High Performance Development Standards. This is something that other bodies already play roles in including NRCan and Utilities
- **Marketing** Through the marketing of the High Performance Development Standard Program similar to green certification programs Tier 2 projects could be referenced to help general public understand the higher performance levels of the project. This would likely be more useful for residential buildings planned to be sold. Many buyers are unfamiliar with what makes a high performance building and struggle to decern the green washing from worthwhile investments. Marketing and communication support of these City led standards could add a degree of confidence for buyers. Certification programs attempt to play this role but there are many certification programs available and not all come with strong value.
- **Awards** Design awards are already given out by the City for other categories high performance buildings could become one of the criteria or categories these buildings are evaluated on.
- **Funding and Real-Estate Agreements** When the City is providing funding or looking to divest real-estate holdings conditions to require HPDS may be incorporated into legal agreements.

Other Incentive Programs Available

When considering incentive program, it will be important to track incentives available through other levels of government and utility Demand Side Management Programs. This will help to determine what additional roles need to be played, and ensure proponents aren't doubling up incentives that are intended to be stand alone elements. At this time Enbridge is continuing to roll over past programs including the Savings by Design Program which applies to new construction projects. A new four-year plan for programs to be implemented between 2023-2027 is currently under development. The IESO's Save On Energy High Performance New Construction Program wrapped up in 2018. No plans are yet available on future programs with similar objectives to this one. The federal government has made reference to incentives for homes but no programs are currently available.

Order of Magnitude Budget Required

Calculations have been made to estimate an order of magnitude investment required to fund an effective incentive program. Approximately 20-50 Million dollars annually would be needed to reach the top 10% of new construction projects. This is based on the growth estimates used in the Energy Evolution model, an incentive value of about 5% of the construction cost. Construction costs have been based on the Altus Group Canadian Cost Guide 2021.

Potential Sources of Funding for Incentives

Currently, there is no funding source available to enable a HPDS incentive program. Potential options include:

- Tax increment rebate- tax increment rebates use the increase in property taxes in the first few years post redevelopment to fund the incentive. This is a potential funding source for the HPDS
- Low interest loans such as through the FCM are a potential funding source for the City of Ottawa.
- Development Charges- The City of Toronto has used development charge refunds to cover the cost of the incentive program. This is an unlikely possible source for the City of Ottawa as if this revenue source were to be used another source to offset the reduced funding to cover projects funded through development charges would still need to be found.
- Other levels of government- funding from other levels of government may be required there is no program for the City to pursue at this time to fund a municipal led incentive program.

Timing

The timing of incentives is an important consideration for budgeting of the program. Due to the lengthy nature of construction projects often there is a significant lag spanning multiple years between when an incentive is promised and when it is paid out. There are a number of ways this can be managed either through reserve funds or long term budget commitments. These will need to be explored further to decide the recommended approach.

Next steps

A more in-depth study with recommendations on budget, funding sources, incentive mechanism, applicant eligibility and rules will be required. This would need to be done in consultation with staff across multiple departments, industry and other levels of government.

References

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