SUBMISSION

Exploring Commercial Property Assessed Clean Energy Financing in Ontario

Pembina Institute comments and recommendations

Submitted to the Ontario Ministry of Municipal Affairs and Housing

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Context

The Pembina Institute welcomes the opportunity to provide input on Commercial Property Assessed Clean Energy (C-PACE) Financing in Ontario. C-PACE is a proven tool to drive commercial building retrofit activity while supporting local jobs and communities. The Pembina Institute is pleased to see that Ontario's Ministry of Municipal Affairs and Housing is exploring the implementation of C-PACE.

C-PACE and other retrofit financing programs connect private capital with businesses to support building-level energy savings while also creating capacity to unlock a self-sustaining retrofit market. C-PACE presents an opportunity to grow the economy and save energy, putting money back in the pocket of Ontario business owners.

Recommendations

To what extent should municipalities be involved in these arrangements (e.g., approving the arrangements with an administration role, not involved in administration)?

Administration of a C-PACE program consists of several broad functions: program design and management, lender recruitment and management, customer care, and billing and reporting via the municipal property tax system. Ontario's C-PACE framework must enable participating municipalities to collect agreed-upon loan payments on behalf of C-PACE lenders in the same manner as property taxes, with these amounts secured through a special lien. Municipalities who opt-in to C-PACE participation via municipal bylaw should work with a centralized third-party administrator to deliver the program. This administrator should be designated by the province and be responsible for the administration of C-PACE for all municipalities that opt-in.

The framework should provide flexibility for municipalities to participate in lending, within existing legislative parameters. Local government may have specific objectives, such as increasing small business participation or encouraging retrofits within specific areas. While the program framework should not require municipalities to become a lender, it should offer enough flexibility for local governments to invest in advancing local objectives.

A third-party administrator ensures a consistent participant experience across the province and lowers barriers to participation for municipalities. It also creates economies of scale to drive down delivery costs. This model should take care to limit duplication of effort across partners by establishing clear parameters for the role of each party:

- **The province:** Introducing a C-PACE framework, selecting the third-party administrator
- **Municipalities:** Introducing C-PACE bylaw, partnering with a program administrator to establish program goals and objectives, and processing agreed-upon loan payments through the property tax system
- **Third-party administrator:** Program design and delivery, including communicating with participants, as well as facilitating financing and lending agreements

In addition to reducing duplication, clear expectations for each delivery partner enhances the participant experience. In particular, a single delivery partner, the third-party administrator, should be responsible for all communication with participants to avoid confusion and limit delays.

Should arrangements between C-PACE lenders and property owners be regulated? If so, how should they be regulated, and should lenders be pre-qualified to provide these loans in Ontario?

Arrangements between C-PACE lenders and property owners must be managed through the program administrator to ensure that participants are offered a consistent, competitive loan product. Lenders should be pre-qualified to provide loans. The program administrator establishes the program delivery model and contracts with the lender, establishing the arrangement between lender and borrower. All lenders within a particular jurisdiction should offer consistent terms to participants. A C-PACE framework should authorize both public and private sources of funding.

Is the list of eligible properties appropriately scoped for this type of arrangement?

C-PACE is well suited to support building retrofits with commercial, industrial, multi-residential, manufacturing, hotel, and retail uses.

The Pembina Institute is pleased to see that multi-unit residential buildings are considered in scope, including purpose-built rentals. However, retail condominium buildings during their development phase, and most other new construction, are not appropriate for inclusion.

Increasing the performance of newly constructed buildings is best achieved through a whole-building approach during project design and construction, rather than unit-by-unit upgrades. Asking consumers of newly constructed condominium units to absorb the cost of better building practices through C-PACE financing adds unnecessary cost and complexity. An individual unit with an individual mortgage holder would not qualify for C-PACE; a residential PACE offering may be required. If a sufficient number of units could be bundled to qualify under C-PACE, this arrangement has the potential to limit participation in these projects to conventional lenders that already hold senior lien status (i.e., the mortgage holder). This approach may also limit refinancing options for unit owners and make it more difficult to sell their properties in the future, as mortgage holders generally require consent before a C-PACE assessment is registered. It should be noted that the success of PACE programs depends on a streamlined lender approval process and clear parameters regarding risk and recovery of outstanding payments.

Are the project types appropriate for such arrangements?

The project types are appropriate for such arrangements. Energy efficiency, renewable energy, and water conservation are all appropriate project types for the use of C-PACE. Fuel-switching upgrades, advanced controls, and solar modules with battery storage are particularly impactful for C-PACE programs. Measures to enhance resilience, such as flood protection, and tangential building infrastructure, such as geothermal and electrical power infrastructure, should also be included.

Ontario's C-PACE framework should outline the criteria for participating project types and technologies, rather than compiling an extensive measure list. Typical project criteria include projects that achieve energy and water savings, reduce electricity demand, generate and/or store energy onsite and protect buildings from extreme weather such as wind, hail, flood and wildfire. This approach limits the needs for amendments to the framework and bylaws as new technology emerges.

Should there be a mechanism to enforce repayment in the case of default?

Ontario's C-PACE framework should apply a special lien to the property, which is recovered through the existing mechanism in the property tax system. This approach provides a clear mechanism to enforce repayment in the case of default via the standard municipal tax delinquency process.

Conclusion

In closing, we would like to thank you for the opportunity to provide written comments on C-PACE Financing in Ontario. We look forward to continued engagement on this issue.