

# Staff Report for Decision

DATE OF MEETING JULY 16, 2025

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SUBJECT HOME ENERGY RETROFIT FINANCING PROGRAM EXPANSION

## **OVERVIEW**

### **Purpose of Report**

To seek Council direction to submit an application for funding to expand the Home Energy Retrofit Financing Program by offering a third-party financing option.

### **Recommendation**

That the Finance and Audit Committee make recommendations to Council on the options presented for the Home Energy Retrofit Financing Program continuation.

## **BACKGROUND**

At 2024-APR-22 Governance and Priorities Committee meeting, Staff presented the Home Energy Retrofit Financing Feasibility Study. The study concluded both Property Assessed Clean Energy (PACE) and Direct Lending/Third-Party financing models are feasible options for the City. The report outlined the next steps including bringing forward a report to Council in mid-2024 on a home energy financing program design and investigating the viability of a direct lending program and exploring potential partnership with a financial institution.

### **PACE Pilot**

In spring 2024, given the opportunity to secure external funding to launch a pilot program quickly, Staff first focused on the design of a program using the PACE model. At the 2024-JUN-19 Finance and Audit Committee meeting, Staff advised they would work separately on developing a direct lending financing model to be integrated into the program, with plans to bring a report to Council in early 2025 to access the Community Efficiency Financing (CEF) Capital funding stream through the Federation of Canadian Municipalities (FCM).

At the regular meeting held 2024-JUL-08, Council directed Staff to:

*“apply to the Federation of Canadian Municipalities (FCM) Community Efficiency Financing (CEF) program for pilot funding to support a Property Assessed Clean Energy (PACE) style home energy financing program and if successful, launch a PACE style home energy financing program for Nanaimo residents”.*

In December 2024, FCM informed Staff the funding application was successful. On 2025-APR-01, the City launched a small-scale PACE-style Home Energy Retrofit Financing Pilot Program with the anticipation that 30 to 40 Nanaimo homeowners could participate in the program. The first intake period has now been completed. A total of 37 applications were received.

The pilot has been used to test the program design and potential demand for home retrofit financing and inform program continuation. Given the absence of PACE enabling legislation in BC and the limited grant amount as capital for the PACE pilot, without additional grant or municipal funds, the number of homeowners that can benefit from a PACE-style home retrofit financing program using Local Service Area is limited.

### **Third-Party Financing**

To support program continuation and benefit more homeowners, Staff followed the feasibility report recommendation and investigated the Direct Lending or Third-Party financing option where a private lender offers eligible participants a consumer loan product for home energy upgrades.

A third-party financing option can enable the program to continue with access to market capital and requires the least amount of resource commitment by the City in terms of both capital funding and Staff capacity. For these reasons, the consultant report recommended this financing delivery model for the City and RDN at the time. The success and uptake of a third-party financing option strongly depends on how attractive this option is compared to other financing options available to homeowners.

Legal advice Staff received confirmed that the City could establish an administration program to help owners obtain private loans and use a City-approved set of contractors with City template contracts. The main weakness of this option is that the interest rate could be prohibitive. The City may utilize the funding FCM offers for a loan loss reserve to negotiate for reduced interest rates. FCM holds the funds, and the lender requests loan loss coverage from FCM through the retrofit program administered by the City.

### **CEF Capital Program**

The CEF Capital funding is designed to enable third-party financing to help scale up an existing program, such as the City's Home Energy Retrofit Financing program. Local governments in BC are not authorized to borrow money to loan to private homeowners but can access CEF Capital Program funding of up to \$2 million as a backstop, or loan loss reserve, to cover any losses that might be realized by a third-party lender in the event of a loan default. The loan loss reserve could help the City attract third-party financial partners to participate in the City's Home Energy Retrofit Financing program and negotiate lower interest rates and/or more flexible loan terms for homeowners looking to home energy retrofits.

The CEF Capital Program criteria require a local government to demonstrate that it has secured capital commitments from a third-party financial partner to be eligible for a loan loss reserve at a 5:1 leverage ratio. For example, if a municipality has secured a commitment of \$5 million in loan capital from a financial partner, it would be eligible for a \$1 million loss reserve held by FCM. Should a loan default materializes, the loss reserve will provide up to 80 percent for unrecovered individual loan losses to the participating financial institution. And the participating financial institution would be liable for the remaining amount. The loan loss reserve feature of the CEF Capital Program is meant to offset a participating financial institution's risk and unlock preferential financing products for homeowners.

In addition to the loan loss reserve, the CEF Capital Program also offers a grant up to 50 percent of the loan capital committed by a third-party financial partner. The grant could be used to cover

program setup and operating costs with no matching funds from the City required. City staff were informed by CEF staff in spring 2025 that the funding was almost fully committed and that new Capital Program applications will close on 2025-SEP-01, or earlier if funding is fully allocated. |

## **DISCUSSION**

### **Program Expansion**

The expanded program will have the same objectives as the PACE pilot to help overcome upfront cost barriers to home energy retrofits in order to achieve the following benefits:

1. Reduce community greenhouse gas emissions from low-density residential buildings
2. Improve equity, access and affordability
3. Prepare Nanaimo residents for a changing climate.

The Program has already established eligible retrofits and an approved list of contractors and integrated the Home Energy Navigator energy concierge service. Interested homeowners could apply for the third-party financing option after signing up for the Home Energy Navigator service. Once they are informed of rebates and financing options and confirmed their eligibility, they would be referred to the select financial institution. If they are qualified for the loan with the reduced interest rate, they would need to complete a pre-retrofit energy evaluation. Once they carry out the eligible retrofit(s) with an approved contractor and obtain a post-retrofit energy evaluation, they could apply for rebates from the City with funding from the CEF Capital Program.

In addition to providing more flexible financing terms and access to loans with reduced interest rates anytime of the year, a third-party financing option would place a much smaller administrative burden on Staff. PACE financing is an intense administrative process involving Sustainability, Finance and Legislative Services staff. In comparison, once the third-party financing option is set up, Staff's responsibility would be mainly on communication and promotion and rebate application processing with the support from a contracted program administrator. Finance staff will be more involved only if the financial institution requests a loan loss recovery, which is anticipated to be very rare.

In terms of program impact, under the current economic condition, it is estimated third-party financing could potentially deliver home retrofit loans to 36 to 48 homes per year, compared to 30-40 homes over up to 10 years through PACE financing.

### **Financial Partner Selection**

In order to proceed with a third-party financing model and apply for CEF Capital Program funding, the City needs to identify a financial partner that could provide loan capital to support home energy retrofits.

In March and April of 2025, Staff and a consultant performed a market scan of existing home retrofit financing products across Canadian financial institutions and made attempts to reach eight financial service providers: TD Bank, CIBC, BMO, RBC, Scotiabank, Coastal Capital Community Credit Union, Vancity, and SwitchPACE, of which the last three have responded substantively and engaged with Staff to discuss feasibility.

As financial institutions are exempt from trade agreements, the City is allowed to choose a financial partner based on its own preferences. For the purpose of the CEF funding application

and creating a third-party lending option as part of the Home Energy Retrofit Financing Program, financial institutions were evaluated on their loan product compatibility (such as loan structure, terms, and inclusivity), timeline alignment with CEF funding application, willingness to co-design or adapt financing solutions, operational readiness and support capacity as well as equity and accessibility considerations.

Vancity emerged as the preferred financial partner due to their organizational readiness and market knowledge from nearly two decades long history of offering home retrofit loans, familiarity with the home renovation financing landscape, their willingness and capacity to collaborate effectively with Staff and its competitive loan offering.

A Letter of Intent from the selected financial partner is required for the funding application (Attachment A). There is currently no binding agreement between the City and Vancity Credit Union. If the application is successful, Staff will discuss with Vancity the next steps and report back to seek further direction.

### **Budget**

The City can apply for a grant of up to 50% of the loan amount committed by a financial institution from the FCM CEF Capital Program. Vancity has indicated a commitment of \$8 million capital over four years for eligible Nanaimo homeowners to carry out eligible retrofits. This means the City could be eligible to access \$1.6 million loan loss reserve and apply for up to a \$4 million in grant.

Staff is seeking clarification from the Province on whether the loan loss reserve, funded by the Green Municipal Fund and held by FCM, would impact the City's debt servicing limit. Staff will provide an update to Council, if the grant application is successful, on any impact before proceeding further with program implementation. Staff currently plan to apply for approximately \$1 million in grant funding excluding the loan loss reserve, the majority of which will be dedicated to operating costs such as rebates and subsidies, program administration and energy concierge service, with a small portion to cover start-up cost such as legal services and promotion.

No matching funds from the City are required. However, if there is no or few uptakes of the loan offering at the end of the 4-year funding period, the City would be obligated to return the portion of the grant money that exceeds 50 percent of the loans issued. A low participation rate may result in the City needing to fund costs of the program that would no longer be covered by the grant. As the majority of the operating costs are tied directly with the loans being issued, the main cost that the City might be responsible for would be the start-up costs. They are estimated to be \$30,000 to \$50,000 for legal services, program set up and initial promotion.

The City's contribution will include \$120,000 to continue to support the Home Energy Navigator (HEN) Program in the initial two years of the new third-party financing offering with the hope that sufficient loans will be issued to qualify the City for grant money to support HEN for the two remaining years of the program. HEN is an energy concierge service that has been integrated with the Home Energy Retrofit Financing Program and proves to be valuable to homeowners regardless of if they pursue financing. The program ensures homeowners understand available rebates and financing options. Enrollment into the HEN program will be a mandatory requirement for loan applicants as it has been for the PACE financing applicants.

Staffing resources are estimated to be 0.2 FTE over five months for program start up and 10 to 15 hours a month for ongoing support if there is loan uptake. Since the City has already established the program through the PACE pilot and the third-party financing option will require some adjustments but result in a much simpler process, this can be accomplished with existing Staff.

## **OPTIONS**

1. That the Finance and Audit Committee recommend that Council direct Staff to
  1. apply for the Federation of Canadian Municipalities (FCM) Community Efficiency Financing (CEF) Capital Program to support a third-party financing option as part of the City's Home Energy Retrofit Financing Program and if successful, partner with a select financial institution to offer this option to Nanaimo homeowners.
  2. allocate up to \$120,000 from the Climate Action Reserve Fund to continue to support the Home Energy Navigator Program for 2026 and 2027.

- The advantages of this option: A third-party financing option can enable the program to continue with access to market capital and requires no loan capital from the City and the least amount of resource from the City.

As the loan agreement would be between eligible homeowners and an established financial institution which already has existing infrastructure and process to assess and manage financial risks, the City will not be exposed to the risk of loan defaults.

A third-party financing option would allow Nanaimo homeowners who may not be able to participate in PACE-style financing or Canada Greener Homes Loan a financing option with preferential rate.

CEF Capital funding could offer rebates paired with reduced interest rate third-party financing option to make retrofit financing more affordable and accessible to Nanaimo homeowners and help cover most program costs. This could help sustain the interest of home energy retrofits that continue to help reduce community greenhouse gas emissions, save energy, provide cooling during hot summer days and improve occupants' well being while providing economic opportunities for local trades and businesses.

- The disadvantages of this option: Interest rates from third-party financial institutions would be higher than PACE financing and fluctuate with their prime rate. Preparing the CEF application and expanding the program will require Staff time and resources that could be directed to other priorities.
- Financial Implications: The 2025-2029 Financial Plan will be amended to add \$60,000 in 2026 and \$60,000 in 2027 to support Home Energy Navigator Program funded from the Climate Action Reserve Fund. If approved, the projected 2029 closing balance of the Climate Action Reserve Fund is \$114,399. The City will be responsible for any program costs that exceed 50% of the loans issued.

2. That the Finance and Audit Committee recommend Council deny support for the expansion of the Home Energy Retrofit Financing Program with a third-party financing option.
- The advantages of this option: Not pursuing the third-party financing option will free up Staff time and resource to pursue other priorities.
  - The disadvantages of this option: It may take up to 10 years for payments from the PACE pilot to accumulate sufficient funds to continue the program and benefit a limited number of homeowners. The City will miss an opportunity to leverage external funding and market capital to support home energy retrofits.
  - Financial Implications: This option will leave the requested \$120,000 in the Climate Action Reserve Fund available for other sustainability projects and programs.

### **SUMMARY POINTS**

- The City established a Property Assessed Clean Energy (PACE) style Home Energy Retrofit Financing Pilot Program in spring 2025 with funding support from the Federation of Canadian Municipalities (FCM) Community Efficiency Financing (CEF) Pilot Program.
- Staff are seeking direction to expand the program by adding a third-party financing option and apply for funding from the FCM CEF Capital Program to support Nanaimo residents' home energy retrofits.
- Vancity Credit Union has provided a Letter of Intent to support City's CEF Capital Program funding application as a potential financial partner.

### **ATTACHMENTS**

ATTACHMENT A: Vancity's Letter of Intent

ATTACHMENT B: Link to Community Efficiency Financing Application Guide

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