Qualitative Municipal Risk Assessment for an LIC Energy Retrofit Loan Program

Administrative Model: Municipal Owned or Third-Party Entity
Rating: Red – High, Yellow – Medium, Green – Low

Note: This qualitative risk assessment only considers the municipal risk associated with offering an LIC loan to homeowners. It does not consider the risk associated with delivering the retrofit program which would be transferred to a Municipal Owned or Third-Party Entity. This risk assessment has been informed by work conducted for the City of Vaughan by the Ontario Climate Consortium.

No.	Risk	Context	Impact	Likelihood	Rating	Potential Strategies to Address Risk	Conclusion
Service Delivery - customer expectations are not met, or service can no longer be provided							
1	Province repeals enabling LIC legislation.	LICs have been used in Ontario for many years to fund municipal infrastructure projects and recover costs from benefiting property owners. Regulations were expanded in 2013 to include voluntary energy and water efficiency upgrades of private homes and buildings undertaken on single properties (O. Reg 586/-6). Without this enabling legislation, municipalities could not offer an LIC Energy Retrofit Loan to property owners. Since this legislation promotes private investment in energy efficiency, it is not considered at risk of being repealed.	Catastrophic	Rare	Green	**Mitigate:** communicate broadly the value of LICs for promoting private investment in energy efficiency to reduce emissions. **Mitigate:** Entity considers a business plan based on market-based financing, if required.	**Accept**
2	Council repeals LIC bylaw.	Councils must pass a by-law specific to energy retrofits to enable the application of LICs. Community energy planning can demonstrate the rationale and build community support for an energy retrofit program, as well as serve as the foundation for the integration of energy and climate policies into planning tools (e.g., official plans, secondary plans, community improvement plans).	Catastrophic	Unlikely	Yellow	**Mitigate:** complete a community energy plan with robust public and stakeholder engagement. **Mitigate:** integrate energy and climate policies into planning tools **Mitigate**: develop a robust business case to test the feasibility of the retrofit program ensuring strong input from internal staff to build ownership and durability of the program in the event of changes in senior management or Council. **Mitigate**: Entity considers a business plan based on market-based financing, if required.	**Accept with mitigation**
3	Competing municipal	Municipalities require funds to build and maintain capital projects such as	Major	Likely	Yellow	**Transfer:** establish a Municipal Services Corporation or enter into an agreement with an existing Third-Party Entity to	**Accept with mitigation and**

	priorities for capital.	buildings, roads and sewers. Regardless of the strength of a business case for the program, limits on the amount of capital and/or durability of the program in the event of changes in senior management or Council. However, up-front municipal capitalization can be recouped over time through the program or covered by grant funding (e.g., FCM Community EcoAction)				administer the program and secure private capital based on the merits of the program. **Mitigate:** plan to recoup up-front municipal capitalization and/or seek grant funding. <u>Alternative to further reduce Risk Rating:</u> **Transfer:** enter into an agreement with an existing Third-Party Entity	**transfer of capital financing risk**
4	Insufficient municipal resources to meet property owner demand.	Municipalities will require staffing and other administrative resources including information technology systems to manage the LIC Loan Program. Legislation allows for the municipality to recoup administrative costs through the LIC Loan.	Minor	Likely		**Mitigate:** recover administrative costs through the LIC payment. **Mitigate:** Entity engages appropriate departments in program design.	**Accept with mitigation**
Employees - risk of negative impact including physical harm							
5	Impact on internal processes and workload related to building permits.	Most basic energy efficiency measures do not require a building permit. However, renewable energy measures like solar thermal and PV do require building permits.	Moderate	Somewhat Likely		**Mitigate:** Entity (initially) limit program to energy efficiency measures. **Mitigate:** recover administrative costs through the LIC payment. **Mitigate:** Entity engages building department in program design.	**Accept with mitigation**
6	Impact on internal processes and workload related to tax roll adjustments.	To qualify the special charge as having priority lien status, a municipality must have entered into an agreement with the property owner and prepare and certify a local improvement roll for the private LIC. The annual amount of the LIC that is due to the municipality must appear on the property tax roll and the property tax account for the participating property.	Moderate	Almost certain		**Mitigate:** develop a resourcing plan. **Mitigate:** recover administrative costs through the LIC payment. **Mitigate:** Entity engages tax departments in program design	**Accept with mitigation**

Public - risk of negative impact on a citizen							
7	Homeowner placed in a "technical" mortgage default position.	The Canadian Bankers Association has raised a concern that the LIC could put homeowners/borrowers in an unexpected default position under most lenders' standard charge term for residential mortgages. Almost all lenders obtain covenants from their borrowers with respect to additional borrowing that could result in charges against the property or that might impair priority of the lender's charge. The City of Toronto has addressed this risk by requiring homeowners to seek the consent of their mortgage lender which limited participation. However, there has been limited appetite of traditional mortgage providers to agree to new senior covenants for retrofit loans tied to property tax. Currently, mortgages insured by the Canadian Mortgage and Housing Corporation (7% of mortgages in Ontario) would not be approved for an LIC loan, regardless of the business case. The Clean Energy Financing program in Nova Scotia has addressed this risk by recommending homeowners notify their mortgage lender about their participation in program. During the initial program design process, mortgage lenders were consulted with and an internal legal discussion was conducted to address lender concerns. To date, the Clean Foundation has not encountered any bank putting their customer in a default	Major	Rare		**Mitigate:** Entity engages local underwriters to help them understand the program. **Mitigate:** Entity addresses risk through program design, e.g.: • require homeowners to advise their mortgage lender of their participation in the program • require homeowner to secure mortgage lender consent to participate in the program (not recommended due to significant impact on participation rates experienced in Toronto) • exclude properties with a CMHC insured mortgage • conduct detailed financial due diligence **Mitigate:** Advocate for recommendations in the Final Report of the Expert Panel on Sustainable Finance that support a vibrant retrofit market. **Transfer:** Entity establishes a Loan Loss Reserve to manage mortgage lender concerns regarding potential losses in the event of a default.	**Accept with mitigation and monitoring**

		position and it has not impacted program uptake. Loan Loss Reserves (LLR) have been successful in other jurisdictions to manage mortgage lender concerns. The announcement for the FCM Community EcoAction program noted the potential to establish an LLR for a retrofit program. The retrofit cost relative to the value of the asset is low. The risk of a mortgage lender not renewing a mortgage if the homeowner is current with both their mortgage and property tax payments is low. In the Final Report of the Expert Panel on Sustainable Finance it is recommended that in the case of municipality-sponsored PACE programs, CMHC could provide guarantees for Local Improvement Charge (LIC) financing programming.					
8	MPAC increases homeowner property taxes.	Home improvements can increase the value of the home which might increase the MPAC-assessed value of the home. However, MPAC currently does not include energy efficiency in its property assessments so there is no clear link to increasing property assessments and resulting taxes.	Minor	Unlikely			**Accept with monitoring**
9	Impact on resale of home.	Despite the presumed offset of reduced utility costs, an LIC attached to a home could have the perception of higher cost of ownership in the marketplace. Alternatively, improved energy efficiency could have a positive impact on increasing the market value (not the MPAC-assessed value) of the home, thus	Moderate	Somewhat Likely		**Mitigate:** Entity engages real estate industry early in program design. **Mitigate:** implement a home energy labelling program to change market demand for efficient homes.	**Accept**

		increasing the asset value to the homeowner.					
10	Increase in municipal tax sales.	If a homeowner defaults on their property taxes, the municipality can take their property to a tax sale. However, the default rate on municipal property taxes is low. Municipal property taxes are also considered "recession proof". The municipality also has other options to consider before taking the step of initiating a tax sale.	Moderate	Unlikely		**Mitigate:** Entity addresses through program design by ensuring annual utility savings are equal to or exceed the annual increase to property taxes.	**Accept with mitigation**
Physical Environment - risk of damage to natural capital							
None identified.							
Reputation - risk of damage to municipal reputation							
11	Failure to establish an effective governance model for the entity as a Municipal Services Corporation	Effective governance of the Municipal Services Corporation is essential for the success of the program.	Major	Unlikely		**Mitigate:** include governance expertise in the due diligence process **Transfer:** enter into cross-municipal partnerships to share governance knowledge **Transfer:** enter into a partnership with an existing municipal owned corporation	**Accept with mitigation and/or transfer risk**
12	Entity fails to efficiently deliver the retrofit program	This could include fraudulent use of the program or home energy savings not being realized or failure to achieve cost scale.	Moderate	Unlikely		**Mitigate:** robust due diligence in establishing LIC-enabling partnership agreement between the municipality and the entity.	**Accept with mitigation**
Financial - risk of financial harm to the municipality							

13	Negative impact on municipal debt management and credit rating.	Municipal governments have a provincially legislated debt ceiling or Annual Repayment Limit (Ontario Regulation 403/02 (Debt and Financial Obligation Limits) under the Municipal Act, 2001). Municipal debt obligations in respect of the owner's share of the cost of a work undertaken as a local improvement do not count towards the municipal debt limit. The debt of municipal services corporations is not attributed to the owner municipality.	Major	Rare		**Mitigate:** engage credit agencies early. **Mitigate:** use reserves for up-front municipal capital contributions **Mitigate:** plan to recoup up-front municipal capitalization and/or seek grant funding.	**Accept with mitigation**
14	Homeowners default on LIC payment.	The default rate on municipal property taxes is low. Municipal property taxes are also considered "recession proof". Also, the municipality has priority lien status in the event of a tax sale.	Moderate	Rare		**Mitigate:** Entity address through program design, e.g.: • ensure annual utility savings are equal to or exceed the annual increase to property taxes • establish financial limitations including debt-service ratio, combined loan to value ratio, and assessment to value ratio for project eligibility • ensure applicant's property tax and utility bills are in good standing • require homeowner to sign-up for a pre-authorize payment plan **Transfer:** require homeowners to secure mortgage lender consent to participate in the program (not recommended due to significant impact on participation rates)	**Accept with mitigation**
15	Impact of interest rate fluctuations.	Interest rates of capital vary over the course of a retrofit program	Minor	Likely		**Mitigate:** Entity stress test for changes to interest rates in the business plan.	**Accept with mitigation**
16	Municipality liable for damages due to defective work of independent contractors.	By promoting an LIC-based retrofit program, a municipality may expose themselves legally if a contractor provides defective work, whether endorsed by the municipality or not.	Minor	Unlikely		**Mitigate:** include language in the enabling By-law to protect the municipality. **Mitigate:** Entity addresses through program design, e.g., • Entity enters into contract with contractors • pre-qualified contractors • quality control oversight	**Accept with mitigation**

17	Administration costs exceed business plan.	Incremental increases to municipal administrative costs associated with offering LIC loans are to be recouped through the LIC payment.	Major	Unlikely		**Mitigate:** Entity uses conservative assumptions and include appropriate contingencies in business plan	**Accept with mitigation and monitoring**
Regulatory Risk - risk of non-compliance with legislation or regulations							
18	Non-compliance with LIC legislation.	The portion of the imposed special charge due each year must be added to the municipality's tax roll for that property to ensure the LIC is appropriately attached to the property. The useful life of the proposed energy improvement cannot be less than the LIC payment term limit. However, municipalities have experience with the LIC mechanism as well as establishing internal controls to ensure regulatory compliance.	Moderate	Unlikely		**Mitigate:** Entity engages tax and legal departments in program design to ensure effective internal controls **Mitigate:** document regulatory obligations in the enabling by-law **Mitigate:** Entity integrates building science assessment into program design	**Accept with mitigation and monitoring**
19	Non-Compliance with Ontario Building Code (OBC)	Some energy retrofits may require a building permit. Renewable energy retrofits are more likely to require a building permit than energy efficiency measures	Minor	Unlikely		**Mitigate:** Entity engages building department in program design **Mitigate:** Entity addresses through program design, e.g.: • integrate building permit compliance into program design • limit eligible retrofit measures to energy efficiency	**Accept with mitigation and monitoring**
20	Non-compliance with O.Reg. 599/06 (Municipal Services Corporation)	Some Ontario municipalities have limited experience with Municipal Services Corporations.	Major	Unlikely		**Mitigate:** Entity engages legal department in program design	**Accept with mitigation**