

Category

Other

Geography/ Location

ON, SK

Municipality Size

All



Tier

Enabling



Constraints

Complexity



Administrative Capacity Required

Medium



Fiscal Tool Brief: Revolving Loan Funds (RLFs)

Revolving Loan Funds provide reusable, low-interest financing for projects with upfront costs, using repayments to replenish the fund and support future investments.

A Revolving Loan Fund (RLF) is a self-replenishing pool of capital from which loans are made to eligible borrowers, with the repayments of principal flowing back into the fund to finance new loans. Unlike one-time grants or fixed appropriations, the revolving nature of the fund means that a single initial investment can generate multiple cycles of lending over time, without requiring repeated injections of public money. Seed capital for an RLF can come from a variety of sources, including public budgets, ratepayer funds, bond issuances, federal or provincial grants, and private capital.¹

RLFs can be structured in two main ways. An internal (or “green revolving”) fund operates within a municipality’s own organization, lending capital to

specific municipal projects such as building energy retrofits, then replenishing the fund using the resulting energy cost savings. An external RLF operates as a loan program for outside borrowers, residents, businesses, or community organizations, offering below-market interest rates and flexible repayment terms that are typically unavailable through commercial lenders. In both models, interest and fee payments are used to cover the administrative costs of managing the fund, making it largely self-sustaining over time.²

RLFs are an effective financing tool for projects that require significant upfront capital but generate savings or returns over time, such as energy efficiency upgrades, stormwater management improvements, and other resilient infrastructure investments. By providing long-term, low-interest financing, RLFs can unlock projects that would otherwise be inaccessible due to high initial costs, particularly for households, small businesses, and smaller municipalities that do not qualify for conventional lending.³



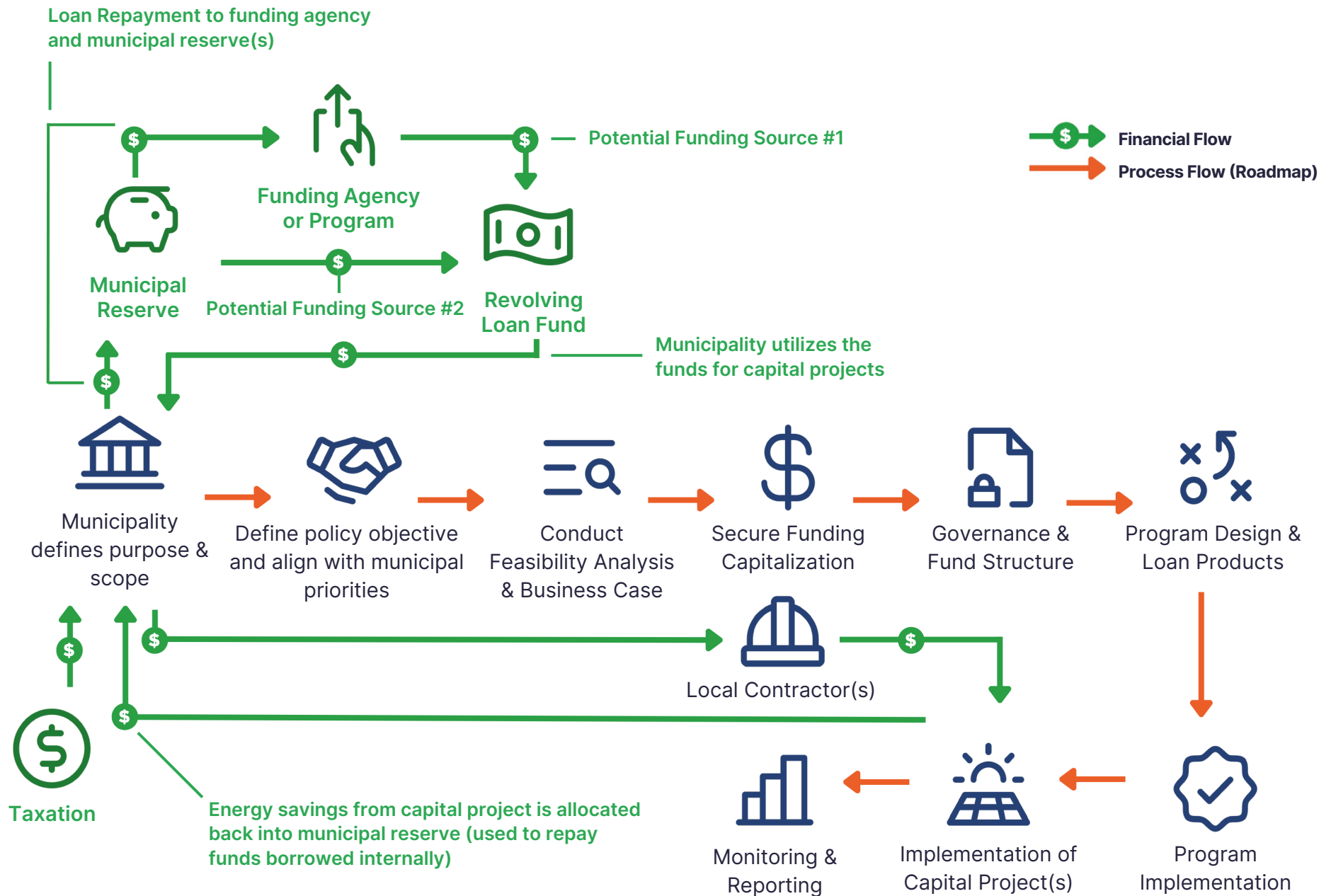


Figure 1. Visual representation of how Revolving Loan Funds work

Examples

Canadian municipalities have used RLFs in a variety of forms to advance energy efficiency and climate goals. [Caledon \(ON\)](#) established a Corporate Energy Revolving (CER) Fund in 2015 using an initial seed investment of \$147,000 derived from solar installation revenue and unused funds from a prior energy project. The fund is entirely self-sustaining; it draws revenue from three town-owned solar sites, energy incentives, and a portion of the utility cost savings generated by CER-funded projects. Since its inception, the fund has financed LED retrofits across municipal buildings, pool drain water heat recovery, upgraded arena controls, and cold-water ice-resurfacing technology, all without relying on taxpayer funds or the municipal budget cycle. A recent round of projects funded by the CER is projected to save 700,478 equivalent kilowatt-hours of energy annually, remove 120 tonnes of CO₂e, and reduce operating costs by approximately \$37,000 per year.^{4,5}

[Toronto \(ON\)](#) operates the Home Energy Loan Program (HELP), one of Canada's most established external municipal RLFs for residential energy retrofits. Through HELP, homeowners can access zero-interest loans of up to \$125,000 to finance a broad range of improvements including electric heat pumps, insulation, rooftop solar PV, geothermal systems, EV charging stations, and air sealing. Loans are repaid over terms of up to 20 years through instalments on the property tax bill, and the financing is attached to the property rather than the individual owner, meaning the balance transfers to new owners upon sale. The program was significantly enhanced with funding from the Federal Government through the Green Municipal Fund, including a \$9.7 million loan and \$4.9 million grant, and has achieved documented energy savings of approximately 25% across participating households.^{6,7}

[Saskatoon \(SK\)](#) launched its Home Energy Loan Program (HELP) in September 2021, becoming the first municipality in Saskatchewan to implement a Property Assessed Clean Energy (PACE)-style financing program for residential retrofits. Developed with initial internal city funding and subsequently expanded with financial support from the GMF's Community Efficiency Financing initiative, HELP offers homeowners low-interest loans between \$1,000 and \$60,000 to finance a range of improvements, including high-efficiency furnaces, heat pumps, insulation, windows, rooftop solar, EV charging stations, and water conservation measures. Loans are repaid through the property tax bill over 5, 10, or 20-year terms and are attached to the property rather than the individual owner. The program was immediately oversubscribed upon launch, requiring a waitlist shortly after applications opened. To advance equity, Saskatoon waives the program's administrative fee for income-qualified households and provides additional rebates and supports through a partnership with SaskPower's Energy Assistance Program.^{8,9}

Relevance to Advancing Adaptation

RLF's can play a meaningful role in advancing climate adaptation by providing municipalities with a sustainable, long-term financing mechanism that removes the upfront cost barrier to resilience investments. Since they do not rely on annual budget approvals or one-time grants, well-capitalized RLFs can offer continuous access to affordable capital for climate-related projects over many years.¹⁰ At the municipal operations level, internal RLFs can be structured to fund retrofits to municipal buildings and infrastructure that reduce energy consumption, lower greenhouse gas emissions, and decrease vulnerability to climate impacts such as extreme heat. At the community level, external RLFs can help residents and

businesses finance improvements that reduce overall climate risk, including energy-efficient upgrades that lower demand on the electricity grid during heat events, stormwater management systems that reduce flood risk on private properties, and structural improvements that increase building resilience to extreme weather. In both cases, the revolving structure ensures that investments made today continue to generate financing capacity for future adaptation projects.¹¹

Accessibility

The accessibility of RLFs in Canadian municipalities depends primarily on the availability of enabling legislation, seed capital, and administrative capacity. In Ontario, amendments to the Municipal Act, 2001 and related regulations have enabled municipalities to use Local Improvement Charges (LICs) as a repayment mechanism for energy efficiency loans, providing a legal foundation for external RLFs structured similarly to the Toronto HELP model. Other provinces have varying enabling frameworks, and municipalities should confirm local legislative authority before establishing an external RLF.¹² A key enabler for Canadian municipalities is the Green Municipal Fund's (GMF) Community Efficiency Financing initiative, administered by the Federation of Canadian Municipalities (FCM). This program provides loans and grants to municipalities to establish and scale home energy loan programs, effectively serving as seed capital for external RLFs. Through this initiative, municipalities of various sizes, from Toronto to Saskatoon, have been able to launch programs without requiring large upfront budget commitments.¹³ Internal RLFs, such as Caledon's Corporate Energy Revolving Fund, face fewer legislative barriers since they operate within the municipality's own capital management

framework. However, they still require an initial source of seed capital, which in Caledon's case was generated by existing municipal renewable energy assets. Municipalities without this existing revenue base may find it more challenging to establish a self-sustaining internal fund, particularly smaller or rural communities with limited energy infrastructure.¹⁴

Feasibility

RLFs are generally feasible to implement in municipalities that have identified a source of seed capital and a clear target borrower group, but several practical considerations can affect their viability. The most significant upfront requirement is capital, both to fund initial loans and to cover administration costs until sufficient loan repayments begin to flow back into the fund. In the early stages of a program, before substantial repayments accumulate, there can be a gap period during which the fund's lending capacity is constrained.¹⁵ Municipalities acting as the administrator of an RLF must also invest staff time in program design, eligibility screening, loan adjudication, and ongoing monitoring of repayments. If the fund draws on multiple capital sources (e.g., a combination of GMF loans, municipal reserves, and provincial grants), this can add reporting requirements and lending constraints that increase administrative complexity. For municipalities with limited staffing capacity, these demands may be a barrier to launching or sustaining the program, and third-party administration arrangements may be worth considering.¹⁶

Risk

The primary financial risk in any RLF is loan default. If a significant number of borrowers fail to repay their loans, the fund's capital base can erode, reducing its capacity to lend to future borrowers. For municipal programs using the property tax bill repayment mechanism (as in Toronto's HELP), the risk of default is partially mitigated by the strong incentive for property owners to maintain their tax payments and the municipality's ability to enforce collections. However, for programs lending to businesses or community organizations, default risk can be more significant and requires careful underwriting and eligibility criteria.¹⁷ A second risk is funding stagnation. If an RLF is not actively managed and its loan terms or eligible projects are not updated to reflect evolving market conditions and municipal priorities, uptake can decline and the fund can become underutilized. The U.S. Economic Development Administration (USEDA) Revolving Loan Fund Best Practices Handbook notes that stagnant funds often benefit from a structured program review that reassesses eligibility criteria, loan terms, and outreach strategies to revitalize demand.¹⁸ There is also an equity risk if RLF programs are not designed with inclusivity in mind. Loan programs that require good credit history, home-ownership, or a mortgage lender's consent may systematically exclude lower-income households, renters, and other groups who face the greatest climate vulnerabilities but have

the least access to capital. Municipalities should consider incorporating targeted affordability measures, such as income-based interest rate reductions, grants for low-income households, or expanded eligibility criteria, to ensure that RLFs reach those who need them most.¹⁹

Scalability

Since an RLF replenishes itself through loan repayments, a well-managed fund can continue operating indefinitely without repeated public subsidy. Additional capital injections, from grants, bond proceeds, or private co-lending, can further expand lending capacity over time. At the national level, the GMF's Community Efficiency Financing initiative provides loans and grants to help municipalities establish and grow home energy loan programs, enabling municipalities of varying sizes to launch RLFs without large upfront budgetary commitments. Scalability is constrained in smaller municipalities where limited staff and a smaller borrower pool may make it difficult to generate sufficient loan volume. Regional cooperation, such as a shared program administered by a regional government or conservation authority on behalf of multiple smaller municipalities, can be an effective way to achieve the scale needed to make an RLF viable.

Evaluation Matrix

Scoring: High = +1 | Medium = 0 | Low = -1

Criterion	Rating	Score	Key Evidence	Assessment
Effectiveness & Performance	High	+1	Provides continuous, repayable financing for adaptation-related investments	RLFs strongly support adaptation by creating an ongoing financing mechanism for resilience projects.
Economic Efficiency	Medium	0	Self-replenishing but requires upfront capital and program administration	The model is efficient over time, but setup and administration create moderate resource demands.
Equity & Fairness	Medium	0	Risk of exclusion for low-income or credit-constrained participants	Equity outcomes depend on program design, with potential access barriers unless supports are built in.
Political Acceptability	High	+1	Offers low-interest financing without direct taxation increases	RLFs are generally acceptable because they provide supportive financing rather than imposing new taxes or fees.
Feasibility (Admin/Legal)	Medium	0	Requires enabling legislation, seed capital, and administrative systems	The tool is feasible where capacity exists, but implementation is more demanding for smaller municipalities.
Coherence (Portfolio Fit)	High	+1	Integrates with municipal finance tools and external funding programs	RLFs fit well within broader adaptation finance portfolios and complement grants, LICs, and energy programs.

Best Use Context

RLFs are most effective where municipalities can secure seed funding and sustain administrative capacity. They are particularly valuable for financing distributed, smaller-scale adaptation measures across communities.

Context Factor	Relevance	Notes
Municipal Size	Medium	Scalable, but smaller municipalities may require regional collaboration.
Administrative Capacity Required	Medium	Requires program design, loan management, and monitoring.
Development Pressure	Low	Not dependent on growth; applicable across market conditions.
Climate Risk Targeting	High	Can directly finance targeted resilience and retrofit measures.
Fiscal Flexibility Required	Medium	Requires initial capital but becomes self-sustaining over time.

Recommended Citation

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