

# Multifamily Energy Efficiency Financing



*4TH STATEWIDE ENERGY EFFICIENCY BEST PRACTICES  
FORUM*

**SACRAMENTO, CA JUNE 20, 2013**

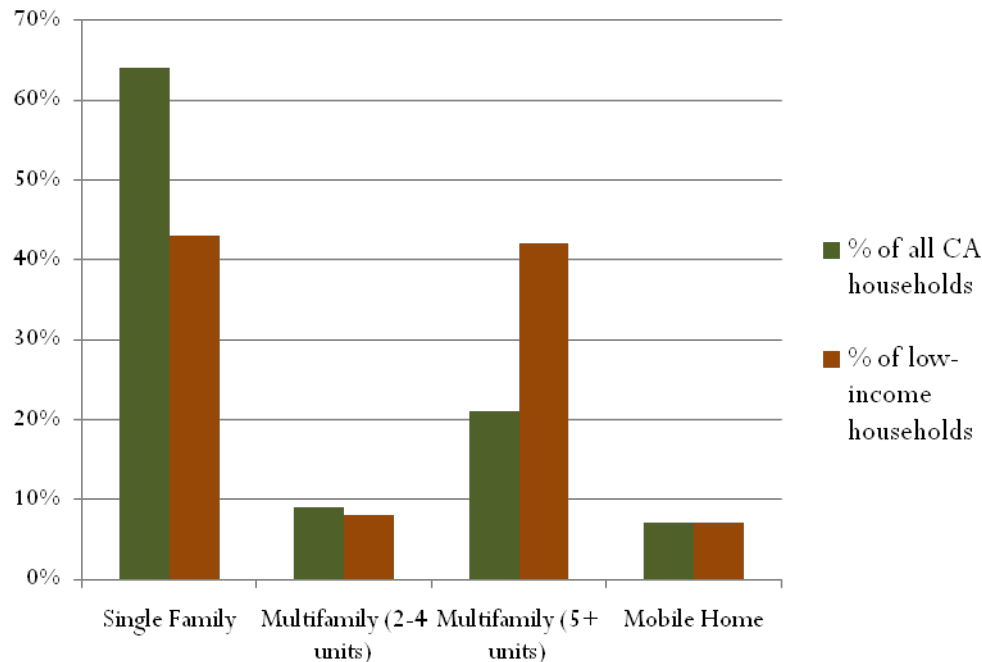
**”MAKING ENERGY EFFICIENCY PROJECTS PENCIL OUT: FINANCING  
OPTIONS FOR LOCAL GOVERNMENTS, BUSINESSES AND RESIDENTS“**



# Opportunities



- In California, approximately one-third of households reside in multifamily buildings. <sup>1</sup>



1. California Public Utilities Commission, "California Long-Term Energy Efficiency Strategic Plan," September 2008.

# Opportunities



- **Nationwide:**
  - > 70 % of MF housing units constructed before established building energy efficiency codes.<sup>2</sup>
- **In California:<sup>3</sup>**
  - >2.4 million existing multifamily dwelling units, 15% market penetration would be ~336,000 Dwellings
  - A 25% energy upgrade of 336,000 dwellings =
    - ✦ 533,971 megawatt-hours (MWh) of electricity
    - ✦ 37 million therms of natural gas
    - ✦ Avoided greenhouse gas emissions would be 430,245 MTCO<sub>2</sub>E annually

2. Energy Foundation, "U.S. Multifamily Energy Efficiency Potential by 2020," October 19, 2009, prepared by The Benningfield Group, Inc.

3. Calculations completed using methodology from the California Air Resources Board (CARB) AB 32 scoping plan as presented in GreenPoint Rated Existing Home Multifamily program report from StopWaste.Org to Energy Foundation, 2008.

# Presentation Outline



- **MF HERCC**
- **MF Financing Mechanisms Overview**
  - Low-Income vs. Market Rate
  - Emerging Mechanisms



# Multifamily HERCC



- **EPA Region IX convened:**
  - Home Energy Retrofit Coordinating Committee (CA HERCC)
- **StopWaste chairs:**
  - MF Sub-Committee (MF HERCC)
- **Consensus recommendations for multifamily energy upgrade programs & resources**
  - Government, Utilities & Industry Professionals
  - Initiated during 2009-2013 stimulus funding
  - Continuing through 2013-2014 CPUC funding cycle

# MF HERCC 2010-11

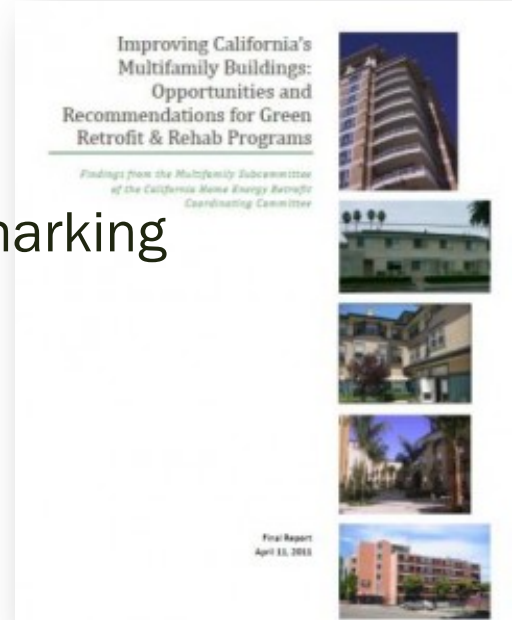


- **Program Design Recommendations & Tools**

- Program delivery
- Individual measure & whole-building approaches
- Professional qualification & training
- Energy analysis software
- Performance measurement, tracking & benchmarking  
<https://multifamily.energyupgradeca.org>
- Low-income program access & coordination

- **Audit Protocol**

- Combustion Appliance Safety Protocol



# MF HERCC = Program Consistency



- **MF HERCC Recommendations & Audit Protocol are referenced by the following California programs**
  - ARRA Funded
    - ✦ Local Government (SMUD, San Diego, Los Angeles, Alameda County)
    - ✦ CSD WAP Multifamily Audit Protocol
  - CA State Treasurer Office/Tax Credit Allocation Committee's (TCAC) Low-Income Housing Tax Credit (LIHTC) Program
    - ✦ Sustainable Building Methods for Rehabs
  - IOU EUC Multifamily Whole-Building Programs
  - SoCAL REN & Bay REN EUC Multifamily Programs
  - GreenPoint Rated Existing Home Multifamily
    - ✦ 3<sup>rd</sup> party-verified green & energy certification

# Multifamily Financing - Generalizations



- **MF financing is more like commercial than residential**
  - Dealing with property owner/manager/investor, not homeowner
  - Financing “stack” complicates adding supplemental EE product
    - ✦ requires approval by existing lenders in stack
  - Equity investors resistant to add debt via supplemental loans
- **Affordable Housing- Non-profit Owners**
  - Leverage public funds & private capital through tax credits, bonds, subsidies, community development & commercial loans
- **Market Rate- Independent & Corporate Owners**
  - Corporate = Real Estate Investment Trusts & Joint Ventures
    - ✦ Pay-back periods can be beyond timeframe of owner’s investment (as short as 3-7 years)



# Housing Finance & Energy Efficiency



- **Low-Income Housing programs have EE criteria**
  - State & Local Housing Finance Agencies
    - ✦ TCAC, CDLAC, Cal HFA, HCD
    - ✦ TCAC Low Income Housing Tax Credits (LIHTC) sustainable building methods aligned with CA HERS program & MF HERCC protocols
  - Housing & Urban Development: GRP, NSP
    - ✦ Green Capital/Property Needs Assessment (CNA/PNA)
- **These sources of housing financing are major drivers for EE implementation in MF housing**
  - Lacking equivalent drivers in the market rate sector

# Emerging MF Financing



- **Utility On-Bill Mechanisms**
- **Commercial Property Assessed Clean Energy (PACE)**
- **Credit-enhancement programs (co-financing, LLR)**
- **Fannie Mae partnership programs**

# Utility On-Bill Mechanisms for MF



- **IOU Statewide Commercial On-Bill Financing (OBF)**
  - Commercial meters/ MF Common Areas
- **Bay REN**
  - Pay As You Save (PAYS) – on-water-bill repayment, water & energy measures eligible, Pilot Partners -Town of Windsor, Hayward, EBMUD, SFPUC
- **Marin Energy Authority**
  - On-Bill Repayment Financing for Multifamily & Small Commercial
- **Potential pending CPUC Finance proceeding:**
  - On-Bill Repayment for master metered affordable housing
    - ✦ Tenant meter OBR – enabling legislation proposed as SB 37 (died)

# Utility On-Bill Mechanisms



- **Issues:**

- Complex ownership, customer & metering configurations in multifamily housing
- Utility shut-off provisions
- Transferability
- Utility vs. lender functions (loan servicing)



# Commercial PACE



- **Commercial PACE programs available to Multifamily Owners**
  - AB 811 contractual assessments require that
    - ✦ entity is eligible to pay taxes
    - ✦ senior lien
  - Debt obligation tied to property assessment
  - Repayments through property tax payment

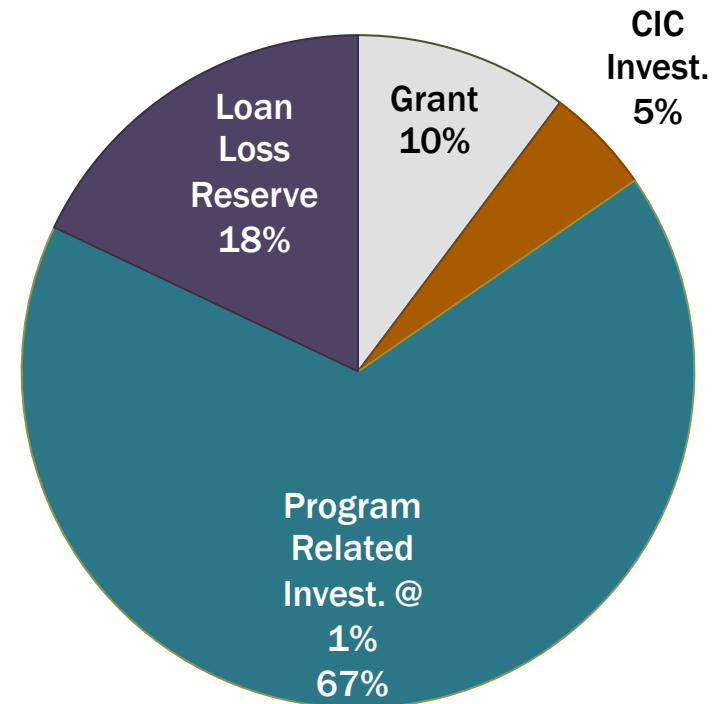
# Credit Enhancements



- **Leverages existing lender infrastructure**
- **Makes conventional loan style products more attractive, preferably termed**
- **Types of credit enhancements:**
  - Loan loss reserve
  - Co-financing
  - Debt service reserve
  - Program Related Investments

# LLR Example: Chicago's Energy Savers

- CNTenergy + CIC (CDFI) lending partner
- City LLR from ARRA funding + 1% IR PRI
- Second mortgage, often behind CIC first mortgage
- Personal recourse
- 3% IR (vs. 5-7%), 7 year term
- 1.15 DSCR & 90% LTV
- Financed since 2008:  
95 buildings / 3,238 units



**cic**

Community Investment Corporation

**energy savers**

A one-stop energy efficiency shop for multifamily building owners

# Co-financing Example: NYSERDA



- Green Jobs Green NY: \$11.5M through 2015
- Up to 50%, \$500,000/project, \$5,000/unit
- NYSERDA portion of the loan offered at 0% interest
- Term: 15 year or weighted life of improvements (by cost) whichever is lesser
- Since 2011: 4 loans + 6 in pipeline
- Very little marketing – all through trade partners



# Fannie Mae- Green Refinance Plus



- Partnership with HUD & FHA
- FHA provides credit enhancement
- Limited to refinance
- Limited to subsidized affordable housing
- Must have Green PNA (PNA + energy audit + IPM)
- Up to 5% additional loan proceeds to pay for green + energy upgrades identified in Green CNA

# Case Study: City Gardens, Santa Ana



- Fannie Mae Green Refinance Plus- LINC Housing
- Ratepayer rebate programs = \$285,752
- Total financed = \$307,214
- 10 year term
- 4.1% interest
- 1.1 DSCR



# Fannie Mae NYC M-PIRE



- **“Multifamily Property Improvements to Reduce Energy”**
  - Available to low-income & market rate
  - Partnership with the NYC Energy Efficiency Corporation
  - NYCEEC provides credit enhancement
  - Extra loan proceeds for energy & water efficiency
  - Underwrites to a portion of projected energy & water savings in both common areas and tenant units
  - Allows up to 85% Loan-to-Value
  - Refinance or supplemental loans available
  - NY requires benchmarking/utility tracking

# Looking Forward



- **Develop market rate solutions to be a driver proven by low-income housing finance products**
  - (eg; Tax Credits, Fannie Mae, Commercial Products )
- **Multiple solutions necessary to serve complex market**
  - Need to serve a broader portion of the market than low-income/subsidized housing & central/common meters
- **Financing needed to close the gap in MF EE program offerings**
  - Leverage EE programs' infrastructure for Audits, CNAs, Quality Assurance
- **Underwriting to savings**
  - Savings increase NOI and therefore DSCR
  - Better utility data access to demonstrate pre- vs. post- savings to lenders
- **Convene MF HERCC Financing Task Group in 2013**

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