California Energy Commission
DOCKETED
12-EBP-1
TN # 68002
OCT. 23 2012

October 23, 2012

Commissioner Andrew McAllister
The California Energy Commission
1516 Ninth Street
Sacramento, CA 95814

Dear Commissioner McAllister,

We, the undersigned, represent various groups committed to making energy efficiency improvements to the affordable multifamily rental housing sector[i], and respectfully submit the below comments on the Comprehensive Energy Efficiency Program for Existing Buildings Scoping Report.

Targeting affordable multi-family rental buildings for energy upgrades will be crucial if we want to achieve significant energy efficiency savings. Lower income households have been shown to use 27 percent more energy per square foot compared to market rate buildings due to their age and condition.[ii] Renters represent forty-two percent of California households, and approximately one-third – 4 million – of these households qualify for low-income energy efficiency programs.[iii] However, unless the program created under this law recognizes the unique needs and barriers of retrofitting multi-family buildings in low- income areas, we will not meet our full energy efficiency potential.

We commend the CEC for recognizing that the multifamily affordable housing sector is profoundly different from the single-family sector in both the building type and the financial structure, and California will not be able to achieve optimal energy improvements merely by modifying or expanding the single-family programs. We urge the CEC to consider the below recommendations as implementation moves forward.

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Increase Coordination and Standardization Among Programs and Encourage a Building Level Approach

As the Scoping Report notes, we need to coordinate between different programs in order to maximize energy savings[iv]. Currently, multifamily rental building owners have to navigate myriad programs (e.g. CSD's WAP, CPUC's ESAP, rebates, etc.), many with differing requirements and standards. Not only do these differences create confusion, varying standards also hamper workforce development by narrowing the pool of professionals who are considered qualified to work on a particular project. We recommend the CEC consider the following actions:

- Require entities that offer efficiency programs for the multifamily sector under AB 758 (e.g. utilities, local governments, and third parties) to employ staff or consultants knowledgeable in affordable housing finance and multifamily rental buildings and provide a single point of contact to help building owners leverage all available programs (e.g. low income, federal, utility, local government or third party programs) and;
- Standardize criteria among programs to increase the ability of affordable multifamily rental housing to access energy efficiency services. This should include:
  - Consistent accreditation standards for building professionals across all programs;
  - Common eligibility standards (such as income eligibility standards for income-qualified programs);
  - Consistent audit protocols.

Currently, many energy efficiency programs require building owners to collect energy usage data from individual tenants, an extremely time consuming and inefficient process. The program should:

- Develop regulations that allow utilities to provide to building owners aggregate building level energy use data. Such a requirement would obviate the need to obtain waivers from all tenants while preserving the privacy rights of individual tenants.

Additionally, the Scoping Report correctly notes that a whole building program will need to overcome the barrier of determining income eligibility of individual tenants when dealing with common space[v]. The program should:

- Require programs to offer building-level (as opposed to unit-level) approaches to participation (such as building-level eligibility standards rather than unit-by-unit eligibility in income-qualified programs).

Revise Financing and Investment Standards

The Scoping Report correctly acknowledged that the structure for accessing financing and incentives for multifamily buildings is fundamentally more complex than for single-family buildings. As the report noted, financing can involve multiple resources and a larger sum of money than single family, and it is difficult, if not outright prohibited, for the property to take on additional debt. The program should:

- Enable building owners to leverage resources from multiple programs through efforts such as increased coordination of various program requirements (as discussed above). Leveraging allows owners to multiply the impact of individual financing sources, while distributing risk to accomplish a greater scope of work;
- Support financing programs (e.g. on-bill repayment and Energy Performance Contracting) to help simplify and streamline the financing process and help resolve the split-incentive issue. The Scoping Report does not emphasize the split incentive issue in affordable multifamily housing, but it must be addressed in a successful financing program.

The Scoping Report recognizes that "many decision makers currently use cost analysis metrics that undersell the long-term benefits of many energy projects" by valuing simple payback over long- term savings. The Report notes that some organizations have begun using net present value (NPV) instead[vi]. The Report also states a desire for financing to shift from a widget approach to a whole house approach. To address all of these assumptions, we recommend the CEC consider the following actions:

- Support an investment formula, such as Net Present Value of Energy Savings (NPV-ES)[vii], that minimizes the impact of inaccuracies inherent in construction cost estimates. This will help avoid the problems of inaccuracies and inconsistencies found in other formulas like Savings-to-Investment Ratio (SIR);
- Prioritize higher levels of energy savings over cost effectiveness by removing barriers to funding larger central systems that can achieve deep and significant energy savings, like boilers and central air systems, in addition to low-cost items, like energy efficient light bulbs. Also, consider including non-energy benefits, such as comfort and health, when determining the cost-effectiveness of a project.

The Report describes a revolving "life cycle" for affordable multifamily buildings characterized by investment/rehabilitation and decay. The Report identifies the point at which the property changes hands and the project is recapitalized, typically every 12-15 years, as an "obvious trigger" for an energy upgrade[viii]. However, due to the loss of the state redevelopment agencies and bond funds, this cycle is no longer as reliable. A change in ownership may not align with refinancing, which may only happen every 20-30 years. The Commission should not rely solely on an ownership change to trigger a major renovation.

<u>Involve Expert Stakeholders in Program Design</u>

One of the best ways to ensure a successful program for the multifamily affordable housing constituency is to involve representatives from this constituency in designing the program. Programs like MASH and SASH greatly benefitted from this approach. These programs were developed in part through a series of workshops led and attended by relevant stakeholders. There

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are still major issues affecting affordable multifamily housing that the Commission will need to address, such as developing protocols for modeling or auditing large affordable multifamily buildings. We recommend the CEC consider the following actions:

- Ensure the participation of those with expertise in rent restricted multifamily affordable housing throughout the process of designing the Comprehensive Energy Efficiency program by establishing a Multifamily Working Group with a formal role in reviewing proposals, and;
- Organize and facilitate a series of public workshops with a specific emphasis on the rent restricted multifamily affordable housing sector. Employ focused outreach to ensure that affordable multifamily representatives participate in these hearings.

We urge the CEC to consider the above recommendations when drafting the Action Plan. Multifamily affordable housing differs significantly from single-family and market rate housing, and the programs created under this law must reflect this reality. We look forward to working with the CEC as this process continues, and we welcome questions and conversation to explore these ideas further.

Sincerely,

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[i] Affordable multifamily housing refers throughout this document to housing that has received assistance though one or more government agencies; thus, the rents that the housing owner can charge and the incomes of the tenets they can serve is regulated, such as through deed restriction.

[ii] Schwartz, Matt. "Financing affordable rental housing; a greener path." Urbanist August 2009 http://www.spur.org/publications/library/article/financing_affordable_rental_housing.

[iii] CPUC, CA Energy Efficiency Strategic Plan January 2011 Update Section 2, Page 9

[iv] CEC, Comprehensive Energy Efficiency Programs for Existing Buildings Scoping Report August 2012, Page 68

[v] CEC Op. cit. Pg 68

[vi] CEC Op. cit. Pg 35

[vii] Jai, Jerry. City of Oakland. Community and Economic Development Agency, Housing and Community Development Division. *re: Oakland Multifamily Weatherization Program - Obstacles to Implementation and Proposed Policy Changes*. 2011. Print.

[viii] CEC Op. cit Pg 26