



## Energy Efficiency in New York's Affordable Multifamily Housing:

### Recommendations from the [Energy Efficiency for All New York Coalition](#)

New York's forthcoming new Energy Efficiency Initiative provides an opportunity for New York to be a national leader on energy efficiency by meeting the State's clean energy and climate change goals with policies and programs that create jobs, increase energy affordability, and improve public health. The Energy Efficiency Initiative should ensure access to energy efficiency for all New Yorkers, especially low- to moderate-income households and environmental and climate justice communities. A strong, sustainable, and successful program is one that reaches traditionally underserved markets, is geographically equitable, helps ensure affordability, improves efficiency for all, and increases housing and energy security. Energy efficiency provides value to the host building and its residents, and provides grid and carbon reduction benefits for society. According to ACEEE, New York's ranking among states in energy efficiency has fallen from number three in 2013 to number seven in 2017. New York utilities are currently obtaining a smaller amount of energy efficiency annually than utilities in peer states like California and Massachusetts. We believe New York, consistent with the goals of Governor Cuomo's Reforming the Energy Vision policies, can do better. The Energy Efficiency for All New York coalition offers these brief comments in support of policies targeting energy efficiency in affordable multifamily housing (AMF).<sup>[1]</sup>

For New York to meet its climate and affordable housing commitments, it is imperative to address the state's affordable multifamily housing (AMF) stock. Much of existing AMF properties are old, inefficient, and in need of repair. These properties often fall into disrepair due to rising operating costs, lack of cash flow for ongoing maintenance, and the inability to recover investments through increased rent. In other situations, these properties are converted to market rate housing, where the investment for repairs can be recovered from higher rents. As a result, families are displaced or continue to live in substandard and inefficient buildings. The opportunity for cost-effective energy upgrades in these properties is significant, but so are the barriers that prevent owners from pursuing those energy upgrades. Affordable housing owners often have limited reserves, substantial deferred maintenance, and challenges accessing sufficient financing to cover essential repairs and upgrades, much less efficiency upgrades. Overcoming these barriers is essential for residents, building owners, and the state to reap the multiple benefits offered by investment in efficiency in AMF properties. Energy efficiency investments can reduce

operation and maintenance costs, increase cash flows, support the preservation of critical affordable housing, and create safer and healthier buildings, while also reducing the energy burden on the grid and reducing overall displacement of many families in need. Despite all the benefits investment in AMF properties brings to multiple stakeholders, the sector is not adequately served by current energy efficiency and clean energy programs.

As New York presses forward with its necessary and critical climate agenda, stakeholders must work together to ensure these properties are part of the climate solution. Low-income New Yorkers should reap the benefits of increased energy efficiency, without facing negative impacts in housing affordability. Offering a robust pool of resources, and realigning existing program structures, is essential to motivate owners to pursue efficiency upgrades and to preserve safe, healthy, and comfortable homes for low-income New Yorkers.

## **BARRIERS**

AMF owners are struggling with aging properties as expenses go up and income remains essentially flat. Housing subsidy dollars are not increasing and income of residents is stagnant, resulting in an urgent need to find other sources of revenue to preserve affordability and improve housing quality. Utility bills often can make up more than 30% of operating expenses for AMF owners, which makes energy efficiency the single greatest opportunity for lowering operating costs, but there are many barriers that prevent owners from tapping into this resource. Those barriers include:

- **Access to Capital:** Income from AMF rent is either capped due to rent regulations or the inability of residents to afford higher rents. Lack of ongoing robust or increased cash flow limits owner access to the upfront capital needed to do repairs or retrofits. Even accessing incentive or rebate programs can be difficult for AMF owners if the programs require up-front cash before reimbursement or as a cost-share. Mortgage lending/refinancing may not readily include additional borrowing for high efficiency upgrades.
- **Disaggregated and insufficient dedicated sources of funding for this sector:** AMF owners may find it easier to do both capital repairs and efficiency upgrades together but they have complicated financial structures that may not align with energy program requirements and timelines. For example, the ability to access soft housing dollars with energy program dollars could stretch the sources further to do more comprehensive upgrades. These "soft" housing funds are grants or other sources of funding for repairs, capital improvements, and project development that come from traditional housing programs. They are vital for helping owners with needed pre-retrofit measures and to implement measures that maximize the benefits of a larger project where there may be long term benefits but the measure itself will not lead to a sufficient short-term return on investment to pay for itself or cannot be paid for with the energy program funds.
- **Lack of Capacity:** Many AMF owners do not have the time or resources to dedicate to aggregating smaller sources of funding and meeting application and evaluation requirements of uncoordinated programs. Technical assistance providers can be helpful but, even then, the paperwork can be too overwhelming and confusing resulting in lost opportunities. When repairs are needed, upgrading efficiency may not be a priority when the process for accomplishing it is overly cumbersome.

## SOLUTIONS

Below are suggested policy and regulatory, program design, and financial solutions to help overcome barriers to energy efficiency in AMF. Consideration and inclusion of these solutions will help address inequities and ensure efficiency for all. The current pace and structure of New York's Reforming the Energy Vision (REV) has left behind energy efficiency – a cost-effective, foundational element of right-sizing the grid. Utilities and market actors currently do not have sufficiently clear policy and market signals, and there is no mechanism to scale up energy efficiency to levels commensurate with its benefits. A new Energy Efficiency Initiative, with ambitious yet achievable targets, is the missing link we need to make REV a success. While we expect the new efficiency targets will be met by a variety of program components, including offerings of NYSERDA and the NY Green Bank, the utilities also have a crucial role to play given they can procure efficiency quickly and at scale, and can directly engage customers with energy efficiency opportunities while stimulating market transformation and market development. We therefore support providing utilities with incentives for meeting ambitious mandates that include specific outreach to AMF and include that recommendation below.

### Policy and Regulatory Solutions:

- **Building Performance Requirements:** Performance requirements phased in over time will help meet climate goals while providing safe and healthy homes. The requirements should be structured to allow sufficient time for owners and developers to comply through standard capital improvement cycles. Complementary financial support will be necessary to ensure affordability is not jeopardized by the need of AMF owners to recover costs (i.e., costs must not be recovered through increased rents but through other pathways, including energy savings). Meeting energy efficiency goals and retrofitting buildings to higher energy standards must not be done at the expense of affordability; commitments to both preventing displacement and creating efficient and healthy homes must occur together.
- **Fuel Neutral Approaches:** Much of the AMF in New York uses oil or dual fuel (gas and oil), rather than just natural gas, for heating and hot water. Many AMF buildings in New York City use oil or “dual fuel” systems (they can use either oil or natural gas) for heating and domestic hot water. Significant work remains to be done to transition oil and dual fuel systems into more carbon neutral systems. Utility and most state energy efficiency programs currently exclude dual fuel systems from program participation. Programs should address dual fuel buildings and also acknowledge the importance of electrification as a longer-term strategy to improve efficiency and meet climate goals. The current inattention - and exclusion from programs - of dual fuel buildings, creates lost opportunities for efficiency upgrades and makes it more difficult to address the central systems or take a whole building approach.
- **Cost-Effective Energy Efficiency for All:** Within the context of REV and a new Energy Efficiency Initiative in NY, utilities can and should be directed to procure cost-effective energy efficiency for all, including in AMF. Such programs can be structured to support markets for energy efficiency (and can be complementary to the development of financial tools supporting upgrades and retrofits). Utilities should appropriately value energy efficiency by considering efficiency as a supply resource (just as generation, bulk power, and distributed generation are supply resources) and develop procurement pathways including competitive procurements and direct incentive programs to ensure AMF buildings can access efficiency products and services.

- **NY Green Bank Support for Standardization of Underwriting for Efficiency:** The NY Green Bank should have products to support underwriting energy efficiency savings as part of 1<sup>st</sup> and 2<sup>nd</sup> mortgages.

#### **Effective Program Design:**

- **Flexible Predevelopment Capital:** Flexible and inexpensive capital, either as zero interest debt or equity like investments, is needed to allow owners and operators of AMF to engage in pre-development energy retrofit planning. Owners and operators of multifamily rental housing, particularly those with large rent restricted portfolios, lack liquidity and working capital to engage in the necessary pre-scoping and planning for energy efficiency retrofitting. Capital needs assessments, energy audits, and architectural reviews can be very expensive, especially if an owner's housing portfolio is non-contiguous and scattered throughout a city, town, or village.
- **Easy Access to Technical Expertise and Capacity Building:** Early stage and easy access to energy efficiency and green asset management consultants – free of conflicts of interest - is needed to effectively incorporate energy efficiency in capital repair work for deep energy retrofitting. The engineering science and practicalities of mechanical systems, building envelopes, and energy technologies can be difficult for owners and operators of multifamily housing to understand. Difficulty in grasping this information precludes effective and thoughtful discussions of energy efficiency needs with local housing finance agencies, private banks, and insurance companies. Housing operators and their buildings-level staff, like superintendents and porters, are usually not trained in green asset management best practices such as monitoring day-to-day energy usage. This training is often expensive and out of reach. Energy efficiency capacity building models like the NYC Retrofit Accelerator should be incorporated in incentive and subsidy programs. Further, incentives for building staff to obtain training and/or professional certifications by the Building Performance Institute (BPI) should be provided.
- **Unified Funding Application For Housing & Energy Efficiency:** To the extent feasible, funding applications for housing subsidies should be integrated with requests for energy efficiency incentives. Owners and operators of AMF have become adept in navigating the extensive procurement proposals, applications, and term sheets typically released by housing finance agencies offering public subsidies for development opportunities. Banks and mission-based lenders like Community Development Financial Institutions (CDFIs) have adapted their underwriting and credit practices to operate in sync with those of local housing finance agencies. Financial incentives for energy efficiency, offered by public benefit or government sponsored agencies such as NYSERDA and NY Green Bank, often have their own extensive procurement processes. During new construction or capital repair cycles, it is often very difficult for owners and operators to simultaneously project manage different application processes and requirements for both housing subsidies and for energy incentives. There is a risk that owners will prioritize housing subsidies, which allow for the housing to be developed and preserved, at the expense of maximizing energy efficiency and green technologies.
- **Fund and Require Integrated Physical Needs Assessment (IPNA):** Funding should be provided for comprehensive property needs assessments that include energy, water, health, and renewable measures (modeled after the NYC HPD - NYC Department of Housing Preservation and Development - IPNA) and these should be required as a prerequisite to accessing housing and energy dollars (assuming funding for the IPNA is provided).

- **Workforce Development:** Program development and implementation should integrate workforce development into program design and activities. Integrating workforce development (WFD) can improve the quality of work, ensure adequate workers are available to meet demand, and offer skills development for workers to support their advancement and improve employee retention. While stand-alone WFD programs are important, these efforts should also be built into programs. This integrated effort could include:
  - integrating workforce planning into program reviews and assessing the impacts of programmatic changes on workforce needs;
  - training standards to improve both the quality of completed efficiency projects and the quality of employment and opportunities for advancement;
  - coordination and inclusion of dedicated workforce development efforts to both ensure that skilled workers are available to meet demand and to connect residents and community members with job openings;
  - identifying needs for incremental occupational training, technical training, apprenticeship, and labor-management certification training for incumbent workers and new entrants.
- **Health and Safety:** Efforts should be made to work with lead poisoning prevention grantees and other organizations that possess healthy homes funds. These funds could be used to address health and safety issues that often prevent AMF from undergoing energy efficiency retrofits.

#### **Financing:**

- **Effective program design is the first step to successful financing solutions.** Please see the above section on 'Effective program design.' To reiterate, it is important to note that before an owner of AMF embarks on financing, they need flexible predevelopment capital to allow them to plan for energy retrofits, as they are cash constrained. In addition, there is a need to access technical assistance providers to help with design and implementation of energy upgrades. Finally, creating a unified funding application for both housing and energy efficiency funding is key to streamlining and creating better access for the AMF sector.
- **Increases in dedicated funding for Energy Efficiency in AMF including:**
  - Deep Efficiency Pathways through Refinancing - create programs that will put capital on the table at the time of refinance to help deep energy retrofits.
  - Modest Cost Pathway for Mid-Cycle Properties - create a seamless moderate cost pathway for mid-cycle properties to help knock off low hanging fruit (e.g., before year 15 when affordability compliance periods end for regulated/low income housing tax credit (LIHTC) properties). Many AMF owners do not need to do full resyndication at \$40k-\$100k/unit, but need to do modest-cost repairs of \$5k-\$20k/unit to increase efficiencies in their portfolios. One way to do this would be to create unified funding applications for housing and energy dollars, to leverage both sources further to do both capital and energy repairs simultaneously.
- **Adopting/Adapting Best Models for combining assistance:** Leverage and layer energy dollars with Housing Finance Agencies and Green Bank dollars, etc., using examples from the CT Green

Bank Model, Local Initiatives Support Corporation (LISCO) Two Shades of Green, MD Multifamily Energy Efficiency and Housing Affordability (MEEHA) program, DC and CA Property Assessed Clean Energy (PACE) programs.

- **Support Underwriting to energy, water, solar, and storage savings:** Increase the understanding and use of energy, water, and renewables savings to underwrite investment/lending for AMF through existing networks (i.e. Community Preservation Corporation (CPC) Lender Learning Guide network, Fannie Green Refinance Plus, etc.).
- **Target NY Green Bank:** Support lenders who serve affordable housing and small businesses so that they can provide additional funds for efficiency and decarbonization work. (i.e., the NYGB to serve as a credit enhancement facility or payment guarantee facility for CDFI lenders to take more risks on energy and renewable technologies).
- **De-Silo Sources of Financing:** Leverage existing programs by facilitating combining energy efficiency program funding with existing housing dollars.

We are hopeful that New York's Energy Efficiency Initiative will be sufficiently ambitious to ensure the state's leadership in clean energy and to address climate change while also including provisions to ensure energy efficiency for all and the preservation of affordable housing. New York Energy Efficiency for All is committed to helping New York accomplish these goals and is willing to work with state government throughout the development and implementation of a new Energy Efficiency Initiative.

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<sup>[1]</sup> Energy Efficiency for All (EEFA) New York includes the Association for Energy Affordability, Enterprise Community Partners, Green and Healthy Homes Initiative, Local Initiatives Support Corporation, Natural Resources Defense Council, Pace Energy and Climate Center, WEACT for Environmental Justice and Working Families. EEFA is a national initiative headed by Elevate Energy, the Energy Foundation, National Housing Trust, and Natural Resources Defense Council to support state-based coalitions, including EEFA NY, and to bring together the energy, affordable housing, and health communities to tap the benefits of energy efficiency and other holistic building measures for millions of low-income families. The project's focus is on increasing and improving the pool of resources available to support efficiency and health upgrades in affordable housing and removing barriers that prevent owners from accessing those resources. The project also conducts research, education, and outreach on a national scale and has a national social impact network, the Network for Energy, Water and Health in Affordable Buildings (NEWHAB), to engage and empower an even broader array of stakeholders.