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CivicPACE



Emerging Opportunities for Solar in Affordable Housing: PACE for RAD, Pay for Success, and Multifamily

About the CivicPACE Team



URBAN INGENUITY



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The **CivicPACE Team** is a U.S. Department of Energy (DOE) effort under the Solar Market Pathways program designed to make commercial Property Assessed Clean Energy (PACE) financing a reality for tax-exempt organizations and non-profits.

RAD and Pay for Success: the Context

- Both are HUD demonstration programs addressing HUD-assisted housing with special energy efficiency/renewable incentives
- Although the former addresses 185,000 units; the latter 20,000, their outcome can shape policy that affects 4 million affordable housing units lacking significant incentives for green investments today
- HUD boosts solar with increased goals; provides encouragement, guidance for PACE

PACE Program Benefits

- 100% financing with no out of pocket payments
- 20 year amortization: Long repayment term allows deep retrofits and improves cash flow
- Senior Debt: mortgage is subordinated
- Performance guarantee can insure savings
- Security is tied to building and transfers with title
- Designed for large capital improvement projects
- Looks at whole building as a system and the interaction of measures to optimize savings

Rental Assistance Development

- **RAD is HUD's rental housing preservation strategy, which works to:**
 - Preserve HUD –funded public and assisted housing (losing 10,000 – 15,000 units annually)
 - Streamline housing rental programs
 - Simplify program administration
 - Leverage private financing to meet public housing capital needs
 - Encourage broader housing planning efforts
 - Introduce greater market discipline
 - Enhance tenant choice
 - Build strong, stable communities

CONTEXT OF RAD PROGRAM

- Policy Drivers
 - Older housing stock
 - Estimated \$26B backlog of capital needs
 - RAD Demonstration expanded to 185,000
 - New Congress with fiscal agenda
 - Energy costs volatility
 - Dealing with economic uncertainty, natural or otherwise

RAD Progress

- 2015 appropriation raised ceiling to 185,000 units
- HUD has issued Commitments for all 185,000 units
- New Waiting List is established with 10,946 units in queue
- Withdrawn or/Revoked CHAP Awards – 3,185 units/31 projects
- 258 Projects Closed, with 27,000+ units by 12/31/15
- Leveraged \$1BB in Mortgage Debt; \$2.8BB in Tax Credit Equity
- HUD accepts RAD applications through September 30, 2018 – ranked by greatest need

RAD and Solar together make sense for at least three reasons:

- 1) With either a PPA or PACE financing, the solar installation does not require traditional debt financing;
- 2) The installation should increase the equity value of the property for the owner; and
- 3) The operating expense savings from lower tariff or lower electricity expense should increase net revenues to property

Solar and RAD via Energy Performance Contracting

- HUD Incentives for Solar in public housing are unique and significant;
- Project has option of selecting either Rate Reduction Incentive, or “Frozen Base” consumption reduction incentive, and even tenant paid utilities are incented

What is an Energy Performance Contract (EPC)?

- **An EPC is a method for financing energy conservation measures (ECMs) that relies on leveraging the long-term savings generated by the ECMs to repay the cost of installing energy and water conservation measures**
- **For public housing authorities, this process allows PHAs to achieve energy savings over time without bearing the upfront capital costs**

EPC Benefits

- **Replace obsolete energy/water systems**
 - Reduce costly system repairs and maintenance costs
- **Asset preservation (\$26B capital Backlog/\$4B related to energy)**
- **Leverage energy and water savings; leaving scarce capital funds for more emergent needs**
- **Generate additional savings to address other capital or operating expenses and effects of proration**
- **Reduce Greenhouse effect by lowering the consumption of coal, gas and oil**
- **Create local green jobs**
- **Improve resident health and comfort**
- **Renewables are eligible measures**

EPC Benefits Only for PHAs

- HUD incentives carry over to RAD only when EPC done prior to conversion
- HUD “bakes in” incentives in Housing Assistance Payment formulas for 20-25 years
- HUD EPC incentive applied to RAD can add millions of dollars to HAP payments over life of contract

Benefits to RAD from Solar

1. The frozen base consumption savings to the property; or HUD rate reduction incentive
2. The significantly reduced EM&V burden in demonstrating those savings to the mortgage lender
3. Equity Investor gains value under PACE financing
4. Where solar installation costs are \$3.50/W and below and utility rates are 12 cents and higher, the solar can be a flywheel measure, enabling the inclusion of longer payback measures, such as HVAC equipment, into the project.

RAD Entails Debt to Property: Tax Credits Commonplace

Mixed Finance & PACE deals provide equity benefits to developer, so long as PACE lender is willing to accept various Intercreditor Agreement modifications to meet Housing Authority requirements in event of default

The Major Challenge for RAD

- Getting the PHA's attention before the conversion takes place
- Dealing with consultants, developers, lenders, HUD regulators a major management undertaking to move property from public housing to Section 8

Advantages of PACE in RAD conversion

1. Lower financing cost to owner, compared to PPA
2. Reduced Credit Risk to Tax Equity Investors
3. Long Term Enables Operational Cost Savings Immediately

Pay for Success – the HUD Energy Financing Pilot program for Section 8, 202, and 811

- Authorized by Congress in Dec. 2015
- Affects 20,000 units
- Budget Neutral for HUD: An EPC
- No cost requirement of owners
- HUD pays 3rd party intermediary/developer based on post-installation measured savings
- PRI investors with risk appetite finance effort
- ESCOs hired to design, install
- NOFA anticipated by October 1, 2016

BENEFITS to Pay for Success Demo from Solar

1. The utility savings to the property;
2. The significantly reduced EM&V burden in demonstrating those savings to HUD and the PRI investor
3. Attractiveness of solar recruits property owners to pilot
4. Where solar installation costs are \$3.50/W and below and utility rates are 12 cents and higher, the solar can be a flywheel measure, enabling the inclusion of longer payback measures, such as HVAC equipment, into the project.

Conclusion

1. PACE by itself, which encourages EPC approach, can transform HUD-assisted housing for solar and EE if pilots succeed
2. Solar cost reductions accompanied by state by state net metering, portfolio standards, tax policy can trigger wholesale adoption by MF owners
3. HUD should incorporate PHA-type energy financing incentives to all Multifamily Properties