NRDC
THE EARTH'S BEST DEFENSE

NATURAL RESOURCES DEFENSE COUNCIL

Mark Shelburne
North Carolina Housing Finance Agency
P.O. Box 28066
Raleigh, NC 27611-8066

Re: North Carolina 2015 Qualified Allocation Plan

Dear Mr. Shelburne,

We appreciate the opportunity to comment on North Carolina's draft 2015 Qualified Allocation Plan. On August 22nd, 2014, the Natural Resources Defense Council (NRDC) submitted comments urging the North Carolina Housing Finance Agency to consider including additional measures to increase the energy efficiency of rehabilitation projects supported through the allocation of tax credits.

NRDC is resubmitting our prior comments, and ask that as you review the draft of the 2015 Qualified Allocation Plan consider incorporating the following into the QAP:

1. To qualify for an allocation, any rehabilitation project must include an energy audit and a description of how the results will inform the selection of measures.

2. Reward rehabilitation projects where it is demonstrated that substantial increases in energy efficiency will be obtained by awarding additional points in the QAP process.

3. Reward all projects that commit to benchmark the energy use of the property for the life of the applicable tax credits by awarding additional points in the QAP process.

<u>Discussion</u>

NRDC, the National Housing Trust (NHT), and additional partners launched the "Energy Efficiency for All" project in 2013. Our goal is to scale up energy efficiency investment in affordable multifamily housing. Increasing energy efficiency in affordable, multifamily housing creates healthier living environments, lowers resident utility bills, reduces owner operating expenses, frees up capital for building improvements, and sustains affordable housing. We look forward to working with NCHFA to achieve these outcomes.

NCHFA has already taken steps to ensure that new construction projects competing for Low Income Housing Tax Credits meet certain design and construction criteria to increase their energy efficiency, and we commend NCHFA for taking these steps. **We urge NCHFA to consider adopting additional requirements and incentives to extend the benefits of efficiency to rehabilitation projects. Doing so will further advance the energy efficiency of existing properties as part of the LIHTC program.** In particular, we urge NCHFA to consider doing the following:

www.nrdc.org
1200 New York Avenue, NW, Suite 400
Washington, DC 20005
TEL 202 289-6868 FAX 202 289-1060
NEW YORK • LOS ANGELES • SAN FRANCISCO

1. **Require an energy consultation or audit as a condition of eligibility for tax credits for rehabilitation projects**. The development team should be required to consult a certified energy efficiency professional for an energy audit in order to identify and consider all cost-effective energy savings opportunities, from the building owner's perspective, for the property's rehabilitation scope. This approach has been taken in several states, including:

    - The **Connecticut Housing Finance Agency** requires development teams to conduct pre-development testing and energy audits of existing buildings to identify energy savings opportunities. The analysis must be prepared by an assessor/rater certified through the Building Performance Institute (BPI), Residential Energy Services Network Home Energy Ratings Systems (RESNET), or ENERGY STAR.

    - The **Iowa Finance Authority** requires tax credit applicants to engage an energy consultant prior to submitting a LIHTC application to identify cost-effective energy improvements that could be included as a part of the rehabilitation project.

    - The **Kansas Housing Resources Corporation** requires an energy audit be conducted by a pre-approved home energy rater prior to the preparation of the final work rehabilitation order.

    - The **Maryland Department of Housing and Community Development** requires an energy audit to identify energy conservation measures with a Savings to Investment Ratio of 1.0 or greater, or those measures that will result in an overall energy savings of 15% or greater over pre-retrofit levels.

2. **Adopt points to encourage performance-based energy savings in rehabilitation projects that seek an allocation of tax credits.** In order to encourage comprehensive retrofits, NCHFA should consider incentives for applicants who demonstrate that they will achieve a certain level of energy savings above a pre-retrofit baseline. This will encourage developers to combine technologies and optimize the performance of the building as a whole. Some states that have adopted this approach include:

    - The **Maryland Department of Housing and Community Development** awards additional points to rehabilitation projects that will result in an overall energy savings of 20-30% greater than pre-retrofit levels.

    - The **Arizona Department of Housing** awards 1 point for each percent improvement in energy efficiency after the first 15%, with a maximum score of 10 points (e.g., a 25% improvement in energy usage).

    - The **California Tax Credit Allocation Committee** awards points to rehabilitation projects that improve energy efficiency over the current usage based on the following scale: 10 points – 30% improvement over current; 7 points – 25% improvement over current; 5 points – 20% improvement over current; or 3 points – 15% improvement over current.

3. **Explore benchmarking energy use.** Benchmarking the energy performance of buildings will help NCHFA track energy efficiency investments to see if the measures have realized their expected

energy savings, identify properties in need of energy efficiency improvements, and make adjustments to its energy efficiency policies in the future.

Benchmarking helps make the business case for improving the energy efficiency and sustainability of the housing in which NCHFA deploys the low income housing tax credit. The properties in which NCHFA invests, either by loans or via the allocation of equity, need to stand the test of time. That means the properties must, on a continuous basis, meet debt service, reserves and other essential expenses. More often than not, energy is the highest variable operating cost in affordable housing, materially affecting both owners and residents. Thus, to maintain NCHFA's interest and its own investments, we recommend that NCHFA collaborate with utility partners and explore adding incentives for benchmarking to help ensure cost-effective energy savings and inform energy efficiency policies in the future. Other state housing finance agencies are encouraging benchmarking, for example:

- The **New Jersey Housing and Mortgage Finance Authority** awards additional points to developers who commit to participate in its benchmarking initiative. Developers are eligible to receive the points if they submit a signed energy benchmarking utility release form for all common area meters (gas, oil, and electric, etc.), provide certain project data (square footage per building, mechanical systems installed, etc.), and signed energy benchmarking utility release forms for a minimum of 75% of tenants.

- The **Michigan State Housing Development Authority** has launched a utility tracking pilot to monitor electricity use in 72 developments. The pilot will track both site and tenant paid utilities, which will help identify developments that can lower operating costs, assist in the underwriting process of developments, and accurately calculate the developments' actual resident utility allowances.

- **Minnesota Housing** is participating in EnergyScoreCards Minnesota's two-year pilot to implement energy and water benchmarking in multifamily buildings across Minnesota. Of the almost 600 participating buildings, half receive housing subsidies. The goal of the pilot is to help inform affordable housing preservation efforts and evaluate the effectiveness of energy efficiency investments.

We also encourage NCHFA to collaborate with utility companies operating in the state to help affordable housing owners access energy efficiency programs and incentives. Many utilities have efficiency programs designed to help owners invest in efficiency repairs and improvements, yet lack the capacity or expertise to effectively reach the community of affordable housing owners and developers. It is also useful to note how housing finance agencies in other states are working with utility companies to improve energy efficiency programs and help owners access utility-sponsored energy efficiency resources.

- The **Maryland Department of Housing and Community Development** is providing financial assistance to owners through the Multifamily Energy Efficiency and Housing Affordability program which is funded by the state's investor-owned utilities.

- The **Wisconsin Housing and Economic Development Authority** awards points to developers who participate in a Focus on Energy Consultation. Focus on Energy is Wisconsin utilities' energy efficiency and renewable resource program.

- The **Connecticut Housing Finance Agency** requires applicants to submit an Energy Conservation Plan that includes information regarding the applicant's efforts to pursue other energy efficiency-related funding opportunities including utility-sponsored incentive commitments.

Energy is often the highest variable operating cost in affordable housing, materially affecting both owners and residents. To protect its own investments, we recommend that NCHFA take the several measures described above into account when evaluating tax credit applications, which will help achieve cost-effective energy savings.

The Natural Resources Defense Council commends the North Carolina Housing Finance Agency for its support of sustainable communities. We urge NCHFA to continue this work by improving energy efficiency and encouraging collaboration between utilities and housing developers.

Sincerely,

Natural Resources Defense Council