

October 17, 2018

Scott Farmer
North Carolina Housing Finance Agency
3508 Bush Street
Raleigh, NC 27609

Submitted by email to rentalhelp@nchfa.com

Re: Comments on the North Carolina First Draft 2019 Qualified Allocation Plan

Dear Mr. Farmer,

Thank you for the opportunity to submit comments to the North Carolina Housing Finance Agency (NCHFA) on the Draft 2019 Qualified Allocation Plan (QAP). The comments in this letter are submitted jointly by the Natural Resources Defense Council (NRDC), the National Housing Trust (NHT), the Southern Environmental Law Center (SELC), and the North Carolina Justice Center (NCJC).

Each of our organizations has worked directly on cost-effective ways to increase and improve energy efficiency investments in affordable housing. NHT is a developer of affordable housing with direct experience developing and operating multi-family properties.

Making LIHTC properties more energy and water efficient delivers great value to residents and owners. Efficiency repairs and improvements are a cost-effective way to make housing more financially stable, reduce energy consumption and expenses, create healthier, more comfortable living environments for residents, and create more valuable properties. It's important for NCHFA to also note that making LIHTC properties more energy and water efficient delivers value to the entire state in the form of a more efficient utility system. We look forward to working with NCHFA to achieve these beneficial outcomes.

We appreciate the steps that NCHFA has already taken to improve the energy efficiency of new construction properties by requiring properties to achieve ENERGY STAR certification. We also support NCHFA's partnership with Advanced Energy to build high performance homes.

One of our primary recommendations, explained further below, is that NCHFA should adopt requirements and incentives to extend the benefits of energy and water efficiency to rehabilitation projects. Doing so will allow the NCHFA's sensible standards to reach more properties and more residents, and will advance the efficiency and financial stability of existing properties as part of the LIHTC program.

We encourage NCHFA to consider the following:

1. Update Appendix B “Design Quality Standards and Requirements” ENERGY STAR Certification requirements from ENERGY STAR 2.0 to the current version ENERGY STAR 3.0 and include ENERGY STAR Multifamily High Rise. Strategies for energy and water conservation continually evolve. The Energy Star Certified Homes Program regularly updates its criteria for certification. NCHFA should update references in Appendix B to Energy Star 3.0 to reflect these updates and changes. In addition, we recommend NCHFA adopt requirements for new construction properties to achieve certification through the ENERGY STAR Multifamily High-Rise Program. To the extent there are questions about the cost-effectiveness of any additional development costs to meet the updated standard, we encourage NCHFA to consider the EPA’s findings that the standards are cost-effective.¹ It is reasonable to expect utility rates to increase over time, including those of Duke Energy Carolinas and Duke Energy Progress. Higher rates would add even further to the cost-effectiveness of energy-savings features. In 2018, the North Carolina Utilities Commission approved a rate increase for residential customers in Duke Energy Progress’s territory of 6.4% for the next four years and 7.3% thereafter.²

The NCHFA should also take into account that the required minimum energy conservation code for residential and multifamily buildings has continued to improve since Energy Star 2.0 was first required for LIHTC properties. An updated version of the North Carolina Energy Conservation Code (“2018 NC ECC”), based on the 2015 International Energy Conservation Code (“IECC”), will go into effect in January of 2019. Though this updated code only makes modest improvements to the existing code, it is estimated that it will nevertheless result in additional utility bill savings for residents. For example, it is estimated that the new code requirements will deliver substantially net positive cash flow value to owners of single-family homes, owners of master metered apartments, and residents of multifamily units that are separately metered.³

¹ *Costs and Savings Estimates, ENERGY STAR Certified Homes, Version 3 (Rev. 08)*, Report of the Environmental Protection Agency (Oct. 2016) (located online at:

www.energystar.gov/ia/partners/bldrs_lenders_raters/downloads/EstimatedCostandSavings.pdf?bb38-8375

² *Duke Energy Progress files new rates for North Carolina customers* (March 2018),

<https://news.duke-energy.com/releases/duke-energy-progress-files-new-rates-for-north-carolina-customers>

³ Estimates suggest adding the code would add approximately \$211 to \$610 to the construction price of a new home, which equates to \$1 to \$3 increase in monthly financing costs, while delivering \$6.70 per month in lowered energy bills as a result, on average. See North Carolina Building Performance Association, *North Carolina Energy Efficiency Potential Report* at p. 8 (Sept. 2018); see also V.V. Mendon et al, *Cost-Effectiveness Analysis of the Residential Provisions of the 2015 IECC for North Carolina*, Pacific Northwest National Labs for U.S. Department of Energy (Feb. 2016) (the Pacific Northwest National Lab compared the 2015 IECC to the 2012 NC ECC and concluded that the 2015 code would be cost-effective in North Carolina. The Lab considered life-cycle cost savings, the simple payback period, net consumer cash flow in the initial year following construction, and first-year annual energy savings. On average, the Lab concluded that consumers would enjoy about \$2050 in life-cycle cost savings from

Generally speaking, a home built to Energy Star 2.0 requirements is roughly equivalent from a building performance perspective to a home built to 2015 IECC standards.⁴ In other words, the baseline of requirements for new construction for all buildings has essentially caught up with the requirements of the QAP. It is time to update those standards to ensure that subsidized, affordable housing units provide additional bill savings for low-income residents.

Finally, updating the efficiency requirements would be consistent with the announced public policy of the state of North Carolina. On October 5th, Governor Cooper issued an official Proclamation in honor of Energy Efficiency Day, declaring that “all North Carolinians have the right to live in homes without the financial burden of unnecessarily high energy usage . . .”⁵ This is consistent with the State’s commitment to energy conservation in its regulation of public utilities.⁶ A commitment to increase the energy efficiency of LIHTC properties would be consistent with these announced policies of the State.

2. Require that rehabilitation projects adhere to minimum energy efficiency requirements.

Residents of rehabilitated properties supported by tax credits should obtain the benefits of greater energy and water efficiency, not just newly constructed properties. North Carolina should join the many states that encourage, and in some cases, require rehabilitation projects to meet minimum energy efficiency requirements.

One option is to require rehabilitation projects to meet mandatory criteria or the minimum level of certification through a third-party standard like LEED, Enterprise Green Communities, or EarthCraft, which incorporate ENERGY STAR certification or mandatory measures.⁷ We estimate that at least 11 states have such requirements. Another option is to require rehabilitation properties to meet minimum performance thresholds over a pre-retrofit baseline. For example,

- The **Arizona Department of Housing** requires rehabilitation projects to achieve a 15% improvement over a pre-renovation baseline, as verified by a RESNET certified HERS rater.
- The **Kansas Housing Resources Corporation** requires rehabilitation projects to meet or exceed an ERI index of 100 or less as established by the 2012 IECC. Developers of

adopting the 2015 IECC, allowing customers to recoup the incremental costs of adhering to the more efficient standards in about five years, while enjoying positive cash flow from energy savings in year one).

⁴ Jennifer Thorne Amann, *Energy Codes for Ultra-Low-Energy Buildings: A Critical Pathway to Zero Net Energy Buildings*, American Council for an Energy-Efficient Economy, at p. 5 (Dec. 2014)

⁵ https://files.nc.gov/governor/documents/files/Energy%20Efficiency%20Day_0.pdf

⁶ N.C. Gen. Stat. § 62-2(a)(3a) (declaring that it is the public policy of North Carolina to secure “the least cost mix of generation and demand-reduction measures which is achievable, including consideration of appropriate rewards to utilities for efficiency and conservation which decrease utility bills.”).

⁷ See *State Strategies to Increase Energy and Water Efficiency in Low Income Housing Tax Credit Properties*, a Report of the Energy Efficiency for All project (located online at: <http://energyefficiencyforall.org/sites/default/files/Energy%20Efficiency%20Strategies%20in%20LIHTC%20properties.pdf>)

historic building rehabilitation and conversions are required to make a best effort to achieve an ERI index of at least 100 which includes involving an energy rater at the earliest stages of planning.

- The **Ohio Housing Finance Agency** requires both new construction and rehabilitation projects to obtain one of the following standards appropriate for the type of construction and level of rehabilitation: Energy Star Performance or Prescriptive Path, 2015 Enterprise Green Communities, Ohio Enterprise Community Partners Green Limited Scope Rehabilitation Overlay, LEED Silver, or National Green Building Standard.

3. Require an energy consultation, needs assessment, or energy audit as a condition of eligibility for rehabilitation projects. An audit can reveal many repairs and improvements that are cost effective – meaning the expected energy savings are greater than the expected project cost over a defined period. We encourage NCHFA to require multifamily rehabilitation project teams to consult an energy efficiency professional or complete an energy audit to identify and consider all cost-effective energy savings opportunities to be included in the property’s rehabilitation scope. A similar requirement has been adopted successfully by Fannie Mae in its multifamily product financing energy related repairs and improvements. This approach has been taken in several states, including:

- The **Missouri Housing Development Commission** requires multifamily rehabilitation projects over 12-units seek an energy audit to help owners identify and consider all cost-effective energy savings improvements that could be incorporated into the property’s rehabilitation scope.
- The **Georgia Department of Community Affairs** requires rehabilitation projects to conduct energy audit to identify energy conservation measures that would result in an overall energy savings of 20% or greater over pre-retrofit levels or have a Savings to Investment Ratio (SIR) of 2.0 or greater.

4. Coordinate with North Carolina utilities. We strongly encourage NCHFA to establish regular collaboration with utility companies in the state to support greater energy efficiency in supported properties. A project for collaboration with utilities is to improve how utilities deliver energy usage information so that owners can engage in energy management, make informed decisions about repairs and improvements, and benchmark energy use in properties.⁸ Another collaborate project is to identify how utilities can tailor energy efficiency programs and incentives to better reach NCHFA-supported properties.

⁸ See *Utility Customer Systems for Landlords*, Report of Energy Efficiency for All (June 2017) (located online at: <https://www.nrdc.org/sites/default/files/utility-customer-systems-for-landlords.pdf>).

Many utilities have efficiency programs designed to help owners invest in efficiency repairs and improvements, yet the programs often fail to reach the community of affordable housing owners and developers. NCHFA is well-positioned to help North Carolina utilities improve how their programs reach NCHFA-supported housing, and state housing finance agencies across the country are increasingly working with utility companies to improve energy efficiency programs. Consider, for example:

- **Minnesota Housing** and **The Pennsylvania Housing Finance Agency** require developments seeking Housing Credits to submit an Energy Rebate Analysis with their application, detailing a list of utility-sponsored, local, regional, or federal energy efficiency rebate programs for which the property is eligible.
- The **Maryland Department of Housing and Community Development** provides financial assistance to owners through the Multifamily Energy Efficiency and Housing Affordability program which is funded by the state's investor-owned utilities.
- 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.

5. Explore benchmarking the energy and water use of LIHTC properties. Frequently, energy is the greatest variable operating cost in affordable housing, materially affecting both owners and residents. Benchmarking can assist owners with ongoing monitoring of a property's energy and water use. A recent study by the U.S. Environmental Protection Agency found that organizations that benchmark energy and water consumption consistently have achieved average energy savings of 2.4% per year.⁹ Benchmarking also helps owners make data-driven decisions about energy and water efficiency investments. For HFAs, benchmarking can help ensure that the properties in which they invest stand the test of time and inform future energy and water efficiency policies and priorities.

- The **Delaware State Housing Authority** requires applicants to use a utility benchmarking service for all owner-paid utility accounts and a sample of tenant-paid utility accounts for a minimum of fifteen years and make all information accessible to DSHA annually.
- The **New Jersey Housing and Mortgage Finance Authority** awards additional points in its QAP to developers who commit to participate in its benchmarking initiative. Developers are eligible to receive the points if they submit a signed energy benchmarking

⁹ *ENERGY STAR DataTrends: Benchmarking and Energy Savings*, Report of the U.S. Environmental Protection Agency (2012) (located online: <https://www.energystar.gov/buildings/tools-and-resources/datatrends-benchmarking-and-energy-savings>).

utility release form for all common 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.

6. Encourage or require Energy Star qualified clothes washers and dryers both in-unit and common area laundry rooms. Clothes washers are responsible for about 20% of all indoor residential water use. A new ENERGY STAR washer can substantially reduce both water and energy use, often reducing by half compared to the most common types of machines in use today.¹⁰ ENERGY STAR criteria apply to both water and energy consumption, so all qualified products should deliver substantial reductions in both energy use and water. Machines are available in a variety of formats, including ADA compliant units.

- The **Georgia Department of Community Affairs** requires ENERGY STAR laundry machines provided by owners in units and in community laundry facilities.

The Natural Resources Defense Council, the National Housing Trust, the Southern Environmental Law Center, and the North Carolina Justice Center commend the North Carolina Housing Finance Agency for its support of energy efficiency, and we appreciate the opportunity to provide comments on the Draft QAP. If you have any questions about these comments, please do not hesitate to contact any of us.

Sincerely,

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¹⁰ See *Efficiency Opportunities in Multifamily Common Area Laundry Facilities*, Report of SAHF and EEFA (2017). Located online at www.nrdc.org/sites/default/files/efficiency-common-laundry-areas-sahf-20170327.pdf