



HUD MULTIFAMILY HOUSING NEWS

Energy and Water Efficiency



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You can send your comments and suggestions regarding the newsletter to:
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Message from Deputy Assistant Secretary Priya Jayachandran

I hope you like our new look! It's our goal to deliver engaging and useful content to our Multifamily stakeholders, and we always strive to improve.

With this issue and moving forward, we will focus on a single theme and explore how Multifamily is embracing that work. This issue focuses on Energy and Water Efficiency and highlights our sustainability work.

The President's Climate Action Plan calls on federal agencies to rapidly increase investments in energy productivity, eliminate energy waste, ramp up efficiency standards and deploy the tools and technology needed to build a new energy economy. According to the Environmental Protection Agency, the residential building sector is responsible for 21 percent of the nation's greenhouse gas emissions. Utility costs, specifically energy and water, account for around 22 percent of public housing operating budgets and a similar share in the assisted housing sector, totaling an estimated \$6.4 billion annually.

Multifamily Housing is committed to creating healthy, energy and water-efficient housing as part of a broader effort to foster the development of inclusive, sustainable and resilient communities. Investments in energy and water efficiency pay dividends by improving occupant comfort, reducing tenant turnover, stabilizing operating costs, alleviating taxpayer burden, preserving affordable housing, ensuring disaster resilience and mitigating climate change. As such, we have taken several steps to encourage greater energy and water efficiency in multifamily housing, including:

- Updating and standardizing the **utility allowance** methodology for assisted properties that must submit annual documentation of utility allowances;
- Offering incentives to multifamily owners and management agents who have joined the **Better Buildings Challenge**;
- Increasing the amount of capital available for owners to invest in energy and water efficiency improvements through **changes to the Federal Housing Administration underwriting standards in the Multifamily Accelerated Processing or MAP guide**; and
- **Lowering the cost of capital through our reduced annual multifamily insurance premiums or MIP rates** for energy-efficient properties.

This issue profiles some of our recent energy and efficiency wins along with a discussion of what's in the works. Read on and let us know what you think.

—Priya Jayachandran

Keeping PACE with Energy Efficiency

The Office of Multifamily Housing will issue a notice later this year that provides a path for HUD-assisted or insured multifamily owners and borrowers to use Project Assessed Clean Energy or PACE programs. The notice will clarify the processes under which HUD insured and assisted properties located in PACE eligible localities may receive HUD support for their participation in PACE programs.

PACE is a means by which property owners can access funds to pay for energy improvements. PACE-enabling legislation has been passed in 31 states and the District of Columbia.

“PACE assessments allow property owners to avoid paying the upfront costs of energy-saving installation by entering into an assessment contract with the participating PACE locality,” said Bob Iber, Acting Director of the Office of Asset Management and Portfolio



Oversight. “This agreement stipulates that the property owner will repay the cost of the improvements through a property tax-like assessment, typically over 10 to 20 years.”

PACE is premised on an analysis that demonstrates that the cost of energy and water improvements will be paid in full over time by the savings generated from those improvements.

“This arrangement spreads the cost of clean energy improvements - such as energy efficient boilers, upgraded insulation, new windows, or solar installations - over the expected life of the measure,” said Iber. “Because the payment is tied to the property tax bill, a secure payment stream, PACE

projects are seen as less risky than typical loans, and low interest capital can be raised from the private sector with no government financing required.”

While the initial investment in energy efficiency retrofits can be significant, there are possibilities for an immediate return on investment.

According to **ENERGYSTAR**, reducing energy use by 15 percent in a typical 250-unit master-metered community will increase net operating income, and can enhance asset value by over \$1 million, assuming a 6 percent capitalization rate. In a similarly sized individually metered community, this same savings may increase asset value by over \$200,000.

Those wishing to learn more about how the PACE program is already being applied in California can read the Multifamily Housing PACE Guidance for the state of California, which was published on January 29, 2015 and can be found [here](#).

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Pay for Success Provides Incentive for Water and Energy Retrofits

Later this year, HUD will announce the establishment of a pay for success demonstration. Under the new program, HUD will encourage assisted owners to execute budget-neutral, performance-based agreements in fiscal years 2016 through 2019 to reduce their energy or water costs.

“The legislation authorizes HUD to implement this pilot in up to 20,000 units of multifamily buildings participating in the Section 8 project-based rental assistance, Section 202 and Section 811 programs over three years,” said Mark Kudlowitz, who is leading the project for Multifamily Housing.

PFS is a model for leveraging private capital to achieve cost savings for the government. The government identifies measurable outcomes - in this case, reduced water and energy costs - and agrees contractually to pay for

these results once they are demonstrated.

“By structuring payments around measurable outcomes rather than a specific set of program inputs or activities, pay for success financing approaches can provide flexibility to implement evidence-based solutions, carefully test promising innovations and scale proven programs,” said Kudlowitz.

Through the 2015 Fast Act, lawmakers authorized HUD to establish a competitive process for selecting one or more intermediaries who will initiate and manage an energy and water conservation retrofit program. This role includes:

- raising capital from private investors and charitable organizations for the up-front costs of the investments;
- credentialing energy service providers and facilitating their interaction with property owners;
- providing quality assurance for improvements;

- obtaining a third-party measurement and verification;
- collecting payment from HUD if savings are realized and remitting payments to project investors; and
- reporting regularly to HUD on results.

When asked how payments would be structured, Kudlowitz responded, “Payment by the government will occur after agreed-upon savings have been achieved and verified by an independent third-party provider that conducts the measurement and verification protocol. This model will allow the private sector to propose creative cost-saving solutions which don’t cost the government anything.”

The Office of Multifamily Housing is utilizing an internal design council to design this program based on statutory requirements, review literature and best practices and lessons learned from similar programs. The Office of Multifamily Housing’s goal is to publish a Notice of Funding Availability by the end of 2016.

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Revised MAP Guide and MIP Reductions Provide Even More Reasons to “Go Green”

MAP Guide

In the [MAP Guide](#) published in February of this year, FHA explicitly recognizes and underwrites projected utility savings resulting from energy efficiency improvements. To qualify for these credits, projects must demonstrate proposed savings through an energy audit. FHA will underwrite up to 75 percent of proposed savings.

“We used 75 percent because there was a study done a few years ago on the HUD Multifamily Green Retrofit Recovery Act Program and it showed that on average, projects achieved approximately two-thirds of the projected utility savings,” said Dan Sullivan, Acting Director of the Office of Multifamily Housing Production. “That was almost six years ago and energy modeling and energy



audits have gotten more sophisticated, and we have a higher degree of confidence in the projections.”

Once available, the Capital Needs Assessment eTool will include a standard requirement for energy benchmarking through EPA’s ENERGY Star Portfolio Manager system, and an American Society of Heating, Refrigerating and Air-Conditioning Engineers or ASHRAE Level II energy audit.

MIP Reductions

[MIP reductions](#) are another way Multifamily Housing is incentivizing property owners to lower operating costs through water and energy savings. “Mortgage Insurance Premiums are how FHA covers our costs, including how we pay claims on loans that go bad,” said Sullivan. “We charge our borrowers MIP on every loan, every year.”

MIPs have traditionally ranged between 45 basis points, or almost one half of one percent of the loan balance, up to 100 basis points or one percent. For the average Multifamily loan of \$11 million, that adds up to \$50,000 to \$100,000 per year.

In the MAP Guide published in February of this year, FHA explicitly recognizes and underwrites projected utility savings resulting from energy efficiency improvements.

HUD lowered its MIPs for a few categories of properties:

- Affordable and mixed-income properties; and
- Green and energy efficient properties.

MIPs for green and energy efficient housing were reduced to 25 basis points, the lowest allowed by law and an overall reduction of 20 to 75 basis points.

In order to qualify for a reduction, properties must:

- achieve an independent green building standard like the United States Green Building's LEED standard or Enterprise Community Partner's Green Communities criteria; and
- must achieve and maintain a score of 75 or better in the EPA Portfolio Manager system.

With so much potential extra loan proceeds, these changes have garnered a lot of attention and have many thinking about going green for the first time.



Benchmarking

HUD released a notice this month requiring the use of benchmarking for certain HUD insured or assisted properties. “There are a number of benefits owners will see as a result of benchmarking,” said Bob Iber, Acting Director of the Office of Asset Management and Portfolio Oversight.

“Owners will be able to better understand their buildings’ energy and water performance by identifying trends and comparing against industry standards. The detection of malfunctioning equipment and billing errors will also be more apparent as spikes in usage may indicate

a problem,” said Iber. “They can prioritize operational and capital improvements, verify the return on those investments and better plan future budget needs. Studies have shown that owners who have used benchmarking have been able to reduce energy use by 7 percent without making any new investments in their property.”

This new requirement will apply to Project Rental Assistance Contracts, Project Assistance Contracts, Section 8 contracts and those with certain FHA insured mortgages, that are seeking certain HUD actions.

The sampling for HUD’s purposes are much less stringent than for other

“ Studies have shown that owners who have used benchmarking have been able to reduce energy use by 7 percent without making any new investments in their property.”

programs. Only eight units have to be surveyed in a project of 125 units in order to secure a benchmarking score. Also, projects with less than 20 assisted units are exempt from benchmarking requirements and the scores are good for three years.

There will be no additional cost on the part of owners in terms of software or systems. Owners participating in benchmarking can use the EPA's free web-based tool called [ENERGY STAR Portfolio Manager](#) to create a benchmarking score for their project which they will then email to HUD. There are also a variety of private software programs available to help owners meet requirements.

The Department will be able to use benchmarking scores to see if energy and water efficiency is changing or staying the same and assess energy and/or water efficiency needs and opportunities in the portfolio. It will also assist in developing new policy initiatives, financial incentives and technical assistance going forward. Ultimately, energy benchmarking will play a vital role in reducing consumption and costs in HUD's multifamily portfolio.

Multifamily Notices, Publications, and Memos

[H 2016-01 Passbook Savings Rate Effective February 1, 2016](#): This supersedes Notice H 2014-15 addressing the passbook savings rate used to determine annual income from net family assets. Published on HUDClips 1/9/16.

[Rental Assistance Demonstration \(RAD\)- Alternative Requirements or Waivers](#): Alternative Requirements for Use of Public Housing Units for the San Francisco Housing Authority: This notice advises that HUD is providing alternative requirements for statutory limits on the use of public housing units in response to plans submitted by the San Francisco Housing Authority to preserve available affordable housing in its jurisdiction and use unoccupied public housing units to temporarily house former public housing families whose units are undergoing renovations. Published 2/5/16.

[Streamlining Administrative Regulations for Public Housing, Housing Choice Voucher, Multifamily Housing, and Community Planning and Development Programs](#):

The rule proposes changes to streamline regulatory requirements pertaining to certain elements of the Housing Choice Voucher, Public Housing and various multifamily housing rental assistance programs to reduce the administrative burden on public housing agencies and multifamily owners and to align certain programs. Published 3/8/16.

[Changes in Certain Multifamily Mortgage Insurance Premiums and Regulatory Waiver for the 542\(c\) Risk-Sharing Program](#): This waiver announces changes for certain FHA Multifamily Housing Insurance programs, including the 542(b) and 542(c) Risk-Sharing programs. These were proposed on January 28, 2016 and are being implemented for commitments issued or reissued beginning April 1, 2016. The new MIP changes reflect the health of the FHA Multifamily portfolio, simplify the rate structure, and demonstrate HUD's commitment to promote its mission initiatives. Published 3/31/16.

[FHA Issues New Multifamily Handbook](#): OMH published its revised Multifamily Accelerated Processing or MAP Guide, which is intended

to cut the time required to approve loan applications and to assure consistent application of program requirements and credit standards across all HUD processing offices. FHA's new MAP Guide delegates more underwriting responsibility to approved MAP lenders and includes all relevant guidance published by FHA since the MAP Guide was last updated in 2011.

[H-2016-05 Revision of Tenant Participation Requirements in accordance with 24 CFR](#)

Part 245: This notice restates requirements issued through Notice H-2014-12 and revises penalties for non-compliance. Specifically, the revisions expand the property types that may be assessed civil money penalties to include non-insured projects that have a project-based Section 8 contract that has been renewed under the Multifamily Assisted Housing Reform and Affordability Act of 1997. Also, the notice expands discussion of accessible meeting space and clarifies the role of HUD-initiated conciliation in resolving tenant complaints. Published on HUDClips 3/31/16.

[FR-47874 Retrospective Review-Improving the Previous Participation Reviews of Prospective Multifamily Housing and Healthcare Programs Participants; Supplemental Notice of Proposed Rulemaking:](#) This proposed

rule clarifies and simplifies the process by which HUD reviews the previous participation of participants that have decision-making authority over their projects. This is one component of HUD's responsibility to assess financial and operational risk to the projects in these programs. The approach offered by the rule not only brings greater certainty and clarity to the process, but also greater flexibility, avoiding a one-size fits all approach. Published 5/17/16.

[H 2016-06 Implementation of the Standardized Firm Commitment Templates for Section 220, 221 \(d\)\(4\), 223\(f\), 223\(a\)\(7\), 231, 241\(a\):](#)

With this Notice, HUD introduces a new standardized template for Multifamily FHA Insured Firm Commitment(s) issued to MAP lenders and owners of multifamily rental properties. Published on HUDClips 5/25/16.

[H 2016-07 Joint Notice between Housing and Public and Indian Housing Funding Availability for Tenant-Protection Vouchers for Certain At-Risk Households in Low-Vacancy Areas:](#)

HUD is making up to \$5 million available for Tenant Protection Vouchers for certain at-risk households in low-vacancy areas for fiscal year 2016. Published 8/18/16.

[H 2016-08 Family Self Sufficiency Program in Multifamily:](#) Family Self Sufficiency is a HUD program that provides incentives and supports to help families living in multifamily assisted housing to increase their earned income and reduce their dependence on public assistance programs. Owners of privately owned HUD assisted multifamily housing can voluntarily establish and operate an FSS program at their housing sites. Families entering the FSS program will develop goals to make progress toward self-sufficiency within a five-year period. Published 8/26/16.

[Eligibility of Independent Students for Assisted Housing Under Section 8 of the U.S. Housing Act of 1937; Additional Supplementary Guidance:](#)

This notice updates the definition of "independent student" to remain consistent with the Department of Education's definition. HUD also clarified the verification process for vulnerable youth populations that are independent of his or her parents. Published 9/21/16.