

Green Bank RFI 3320
Energy Efficiency for All New York Coalition Comments
July 29, 2016

The Energy Efficiency for All New York Coalition (EEFA NY) is committed to ensuring that all New Yorkers are able to participate in a clean and affordable energy future and have access to affordable, efficient, healthy and comfortable housing. EEFA NY works towards that goal by:

- supporting and aligning the work of local stakeholders and directly engaging state and city policy makers and program administrators to identify, develop, and advocate for solutions that will help New York lead the nation on energy efficiency in affordable multifamily housing¹;
- participating in state-level proceedings to advocate for low and moderate income communities on utility regulation, energy assistance programs, and energy efficiency efforts;
- engaging and educating communities and building owners on energy and health issues and policy.

EEFA NY includes:

Association for Energy Affordability
Center for Working Families
Enterprise Community Partners
Green and Healthy Homes Initiative
Natural Resources Defense Council
Pace Energy and Climate Center
We Act for Environmental Justice

EEFA NY applauds the Green Bank's efforts to open up a dialogue with commercial and multifamily stakeholders to identify barriers and develop solutions that can help owners invest in energy efficiency and renewables. Our coalition has reviewed the RFI and has compiled the comments set forth below regarding how the offering as proposed could be adjusted to better serve the affordable multifamily sector. However, as proposed, even with the changes we suggest, we do not believe that this RFP would deliver solutions that could lead to meaningful scale and penetration in the affordable multifamily sector. Therefore, in addition to providing specific comments regarding the proposed RFP, we also highlight some of the barriers that prevent affordable multifamily owners from investing in efficiency and suggest approaches for the Green Bank to consider in order to achieve the RFI's four required outcomes.

Improvements to New York's existing affordable multifamily housing stock must be carried out in order for it to continue to provide New Yorkers with access to safe and affordable housing. But more resources and support are needed in order to enable building owners to carry out upgrades to increase the comfort and safety of residents and reduce operating expenses. As a sector, affordable multifamily buildings face particular barriers to accessing capital necessary to facilitate building improvements and investment in energy efficiency and renewable energy. The Green Bank should view this sector as a priority in evaluating RFI responses, preparing the forthcoming RFPs, and in developing future proposals. Addressing gaps and overcoming barriers is a key part of the Green Bank's mission, the affordable housing sector needs those solutions more than many other sectors, and providing market solutions to the affordable multifamily sector can help the state meet its REV goal of creating "a cleaner, more affordable, more modern and more efficient energy system in New York."

¹ "Affordable" because of government subsidies or because of market conditions

EEFA supports the excellent work done by NYCEEC and we are engaged in an ongoing discussion with NYCEEC of how to further the use of their offerings. We also believe it would be useful to expand or encourage programs similar to NYCEEC's GHPP program with HPD to the rest of the State. However, there is still an important role for the NY Green Bank. The barriers the sector faces and the potential solutions to overcome them differ depending on the point an affordable multifamily building is at in its capital cycle.

Recapitalization/Acquisition Barriers & Solutions

The time of recapitalization and acquisition represents the greatest opportunity for improving the efficiency of affordable multifamily buildings. Limited reserves and other capital constraints often prevent owners from making improvements in between capital cycles, which means that for many owners the only time they can make major upgrades to a building is during recapitalization or acquisition. Yet, several barriers may nevertheless prevent the inclusion of efficiency in upgrades carried out at times of recapitalization and acquisition:

- insufficient debt -service coverage or loan-to-value ratios, which may prevent lenders from incorporating the additional funds necessary to cover the incremental costs of efficiency improvements;
- complicated debt stacks that makes it challenging to incorporate additional financing products;
- an added level of complication adds to a process that is already challenging for owners to navigate;
- and for LIHTC deals, limited subsidy dollars to invest in efficiency improvements.

SOLUTIONS TO CONSIDER

- Provide a pool of funding to underwrite energy and water efficiency improvements in LIHTC preservation projects based on estimated savings. Funding would need to be structured similarly to Homes and Community Renewal programs so that the risk of repayment from energy and water utility savings could be shared and so as not to interfere with the projects sponsor's ability to bring market capital into deals, which relies on patient public funding sources. Coordinate the delivery of these funds with HCR in order to eliminate complications for owners.
- For non-LIHTC deals, partner with CDFIs or other lending institutions to:
 - Provide capital to support energy and water retrofits that is structured like a Line of Credit, is unsecured, and can take a subordinate position to other capital sources.
 - Create a pool of funds to guarantee energy savings, similar to an Energi, but structured to serve the affordable multifamily sector, that would bridge the uncertainty of utility savings repayment as the market for underwriting utility savings matures.

Wherever possible these solutions should be seamlessly incorporated into the standard lending process in order to minimize complications for owners.

Mid-Cycle Barriers & Solutions

Empowering affordable multifamily building owners to invest in energy and water efficiency upgrades in between capital cycles is a critical component to driving New York's clean energy goals. Facilitating these "mid-cycle" solutions expands the number of opportunities to invest in clean energy. Mid-Cycle solutions provide ideal opportunities to aggregate projects, which is more feasible to do during this

time. Barriers preventing owners from pursuing energy or renewable energy upgrades mid-cycle include:

- limited awareness and lack of demand for efficiency services within the affordable multifamily sector;
- limited bandwidth for developing and managing efficiency projects within affordable housing organizations and a low appetite for risk due to tight capital constraints;
- shortage of service providers well equipped to deal with the unique needs of the affordable multifamily marketplace and lack of viable financial tools and incentives for those that are;
- complexity of affordable housing debt stack;
- loan terms that are not aligned with efficiency measure life times;
- and creditworthiness of borrowers.

SOLUTIONS TO CONSIDER

- Provide pre-development financing to cover technical assistance costs and partner with experienced, mission-oriented service providers to use those funds to facilitate the acquisition and aggregation of projects.
- Create a pool of funds to guarantee energy savings that would bridge the uncertainty of utility savings repayment as the market for underwriting utility savings matures and;
- Partner with experienced CDFI lenders adept at underwriting the LMI market and aggregating the complexities of these deals to develop financing solutions for mid-cycle efficiency retrofits.
- Provide a bridge loan product that can hold performance risk, and can then be taken out with a permanent lender over a 30-year term in order to better align loan terms with efficiency measure life times.
- Provide capital to support energy and water retrofits that is structured like a Line of Credit, is unsecured, and can take subordinate position to other capital sources.

COMMENTS AND SUGGESTED CHANGES TO THE RFI

While we believe products specifically targeting affordable multifamily buildings would best serve this sector, broader products for multifamily buildings should be accessible to and appropriate for affordable housing providers as well. We therefore offer the following response to the Green Bank's invitation to comment on the draft RFI for commercial and multifamily buildings.

- Since owners and property managers of multifamily buildings often do not consider themselves part of the commercial sector, either split up the RFP into two separate solicitations or make sure the building types they are eligible and the outreach that is done is clear and reaching the target audience.
- While covering a broad range of measures is critical, the language seems to include a requirement for a detailed implementation plan. We anticipate that it will be difficult for multifamily building owners to outlay the funds necessary to develop such an implementation plan without knowing if financing will be secured. Assistance with covering predevelopment/scope of work costs is essential for this sector. Similarly, the language implies that there will already be signed contracts for work; this cannot take place prior to having financing in place. There is a need for flexible, risk tolerant, and unsecured predevelopment capital – i.e., for energy assessments, soft costs, etc. Funding for Green Physical Needs

Assessments is helpful, as most MF Affordable owners don't have the up-front cash to review properties.

- Audited annual financial statements seem excessive given other protective caveats that are included.
- The 3% fee on top of loan interest seems high; also, there isn't a sufficient explanation of what the Reserve Account will fund (anything beyond closing/escrow?).
- It would be helpful to streamline the SEQRA requirements so that certification is not needed for every time there is a draw/request.
- This RFP is targeting owners who seek direct ownership of clean energy assets. One of the benefits listed is that owners can benefit from tax incentives (section 2.2) through this structure. This can be difficult or impossible for non-profit providers of multifamily housing where the creation of a Special Purpose Entity (SPE) would be required in order to access the benefits provided by these tax incentives. Perhaps consider alternatives where there is a "flip" structure from tax equity investor.
- PACE is ideal as an "off-balance" sheet and wrap-around capital upgrade solution for the multifamily affordable sector. But if the financing offered through the Green Bank is "add-on" debt, it would not be considered a similar option to PACE.
- The second lien position may make sense from a credit perspective, but for affordable multifamily sites, there is likely already subordinate financing on the property. It can be difficult to obtain securitization of subordinated debt. The Green Bank should consider unsecured financing with full repayment guarantee as an alternative and/or third position subordinate debt.
- The terms offer an 80% LTV that includes total outstanding indebtedness including the Green Bank financing, which doesn't seem competitive for affordable multi-family projects, particularly if there are other products on the market with higher LTV. Consider specifically carving out soft debt from public agencies like HPD and HCR from the "total outstanding indebtedness" maximum.
- If maturity is at 10 years, and repayment is determined by savings achieved, it means that for an upgrade to be successful from a cash flow standpoint, the savings would need to be high over a short period of time relative to the loan term. This can be a problem for the affordable multifamily market as owners are highly sensitive to cash flow, and loan terms may be substantially shorter than the measure lives they finance. Also, a refinancing at Year 10 may be difficult for projects that are in the middle of a 30+ year regulatory agreement.
- Appraisals within 90 days seems like a tight window, unless underwriting and closing is very streamlined (in NYC 6 months for an appraisal is acceptable).
- Additional questions on terms: Would there be any requirements involving debt coverage or income to expense ratios? Any requirements with respect to loan to cost, or equity contribution to leverage these funds? Any requirements involving underwriting to certain savings benchmarks?

We appreciate the opportunity to provide comments on RFI 3320 and would welcome an opportunity to meet in person to discuss further how the Green Bank can help the market for providing clean energy services to affordable multifamily buildings thrive.

Respectfully,

[Signatures to follow]

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