California Housing Partnership Corporation
California's Experts on Affordable Housing Finance, Advocacy & Policy

March 8, 2013

Ms. Mary Nichols
Chair, California Air Resources Board
1001 I Street
Sacramento CA 95814

RE: Investment plan for cap-and-trade auction revenues

Dear Chair Nichols:

CHPC is one of more than 50 organizations that has signed on to the [Sustainable Communities for All proposal], which would direct a portion of cap-and-trade auction proceeds to building and preserving affordable homes near transit, increasing public and active transit options, and providing energy efficiency and sustainable energy resources for multifamily homes affordable to low income households.

CHPC has submitted [joint comments] with our coalition partners Housing California, Transform, Public Advocates, Move LA and Global Green. However, we would like to use this opportunity to submit additional comments regarding the proposal to use auction proceeds to fund the Property Assessed Clean Energy (PACE) program for multifamily properties.[1]

CHPC is a state-created nonprofit organization dedicated to assisting nonprofit and government housing agencies to create, acquire, green, and preserve housing affordable for lower-income households, while providing leadership on housing preservation policy and finance. The Governor and the Legislative leaders appoint CHPC's Board of Directors.

CHPC is also the convener of the Green Rental home Energy Efficiency Network (GREEN), a coalition of more than 50 organizations committed to increasing access to energy efficiency resources for low income residents of multifamily rental properties in California and ensuring that these resources are used as effectively as possible to achieve deeper energy savings consistent with the California Long Term Energy Efficiency Strategic Plan[2].

While CHPC strongly supports the use of cap-and-trade auction revenues for energy efficiency financing, we oppose any use of these revenues (or any other state funds) for PACE because the program does not work for multifamily properties and is unlikely to become a viable option in the foreseeable future. The lenders and investors involved in multifamily rental properties (Fannie Mae and Freddie Mac among them) will not accept the additional costs that PACE adds to the property tax since these costs are senior to their own liens. CHPC is not alone in this assessment that PACE will not become a viable financing tool for multifamily rental housing; I am a member of the national advisory board for the MacArthur Foundation and the Center for American Progress (CAP) Energy Efficiency Retrofit Finance Research Project, which has also reached this conclusion.

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[1] Slides 18-20 Cap-and-Trade Hearing PowerPoint presentation (February 19, 25, and 27, 2013), and page 10 of the Cap-and-Trade Auction Proceeds Investment Plan (February 15, 2013)
[2] "CA Energy Efficiency Strategic Plan – January 2011 Update"

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While PACE is not the right energy efficiency finance tool for multifamily housing there is another promising solution in development that merits state investment: **On Bill Repayment (OBR) financing**.

OBR allows the cost of the energy retrofit to be repaid through a tariff placed on utility payments without any need for a lien on the property itself. Since OBR payments can be limited to an amount that is less than the estimated amount of energy savings (bill neutrality), the properties can use the savings to finance the retrofit work. Three major advantages of OBR are: 1) no deed of trust is required, obviating the need to negotiate with senior lienholders as long as bill neutrality is observed; 2) private capital can be leveraged, stretching rate-payer and state funding; and 3) water savings can be combined with gas and electric savings.

Another significant advantage of OBR is that it has the potential to unlock tenant energy savings for financing purposes – solving the split incentive problem. This would allow a tariff to be added to the resident's bill to assist in repayment of a retrofit that would generate greater savings on the tenant utility payment than the cost of the tariff. Environmental Defense Fund is currently sponsoring the legislation that would be needed to pursue an OBR for tenant meter strategy, SB 37 (de León).

At the request of CHPC and other stakeholders, the CPUC recently ordered all of the state's investor-owned utilities (IOUs) to develop pilot OBR programs specifically for low income multifamily housing. The program design recommended to the CPUC by the IOUs' consulting team is based in large part on an early generation OBR demonstration program that is already underway with CPHC's help in Southern California. We believe OBR has the potential to more than double the resources available to retrofitting low income rental housing properties in California in the near term if it receives adequate public investment.

The current challenges facing OBR development include the need for 1) a loss reserve in the absence of comprehensive performance data on retrofit savings to provide assurance to private lenders that there is minimal risk to their capital; 2) matching low cost funds to bring down the cost of OBR financing from the current estimated 7% interest to below 5% where it will be attractive to multifamily owners; and 3) assistance in paying for the comprehensive energy audits needed to estimate savings accurately and reliably. While the consultant recommendations to the CPUC call for a 10% loss reserve for a limited number of retrofits, this is not sufficient in itself to move the program forward.

Investments of cap-and-trade revenues in these areas would open the door to financing energy and water efficiency improvements in multifamily properties and allow OBR to get to scale. **CHPC urges you to consider OBR as an alternative to PACE for inclusion in the Cap-and-Trade Auction Proceeds Investment Plan.**

Thank you for this opportunity to comment. Please let me know if I can answer any questions or provide clarification on these comments. I hope you will consider CHPC a resource on multifamily issues moving forward.

Sincerely,

Matt Schwartz
President & CEO