Journalist Guide to Energy Efficiency Investments in Low-Income Multifamily Housing

As California moves forward with implementation of new energy efficiency targets in the residential sector, California Delivers offers this background resource for journalists. It includes:

- An overview of California's energy efficiency targets and state/federal efficiency programs
- A review of barriers to efficiency investments in low-income multifamily housing and strategies to overcome them
- Relevant facts, figures, and definitions
- A list of experts available for interview

OVERVIEW

Over the last four decades, California has made significant investments in energy efficiency. Energy efficiency programs have saved Californians nearly $90 billion on energy bills over the last 40 years, and average annual residential electricity bills are $240 less than in other states. (Source)

In 2015, California renewed its commitment to energy efficiency with the passage of SB 350, which doubles energy efficiency targets in the residential, commercial and industrial sectors by 2030. Achieving the new targets will continue to reduce customers' bills and air pollution from power generation by slashing total statewide electricity needs by 25 percent and natural gas demand by 10 percent by 2030. The state's focus on efficiency has already prevented the need to build 30 large power plants since the 1970s. (Source)

> "While California has made great strides in energy efficiency, many families who could benefit the most from saving money on home energy costs are missing out because most programs target single-family homes or commercial buildings. The millions of Californians living in apartments and other multifamily housing should have the same energy-saving opportunities, which also will help our state meet its ambitious climate goals."
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> **Maria Stamas**
> **Natural Resources Defense Council**

> “We want low-income people and Californians of color to share in the state’s clean economy revolution. This means access to energy efficient upgrades at home and also career opportunities in the growing weatherization and efficiency industry.”
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> **Stephanie Chen, The Greenlining Institute**

While the benefits of California’s efficiency programs should be enjoyed equitably among the state’s residents, to date, the lion’s share of investments in the residential sector have benefited single-family homes—not the apartments that 1.2 million low-income Californians call home. Many of the programs’ shortcomings stem from the fact that they were designed for single-family homeowners.

Because California’s low-income residents are more likely to be renters and live in multifamily housing, many Californians who would benefit most from efficiency upgrades are not benefiting from the state’s efficiency investments. (Source) Energy expenses in rental multifamily units are, on average, 76 percent higher per square foot when compared to owner-occupied, single-family homes. (Source)

And, the state is not taking advantage of considerable potential for energy improvements. A study by Energy Efficiency for All estimates that increasing the energy efficiency of low-income multifamily housing could reduce electricity use in that sector by as much as 26 percent. Directing more energy efficiency investments to low-income multifamily housing would allow California to unlock significant savings in an overlooked segment of the market. NRDC research forecasts cost-effective electricity and natural gas savings worth 30 percent in California, with benefits outweighing costs two-to-one.

Further, the state is missing out on an opportunity to preserve affordable homes for Californians living in multifamily housing. Utility costs represent a significant portion of operating expenses for rental homes in California. The long-term financial viability of multifamily housing with restrictions that guarantee the long-term affordability of most of the property’s housing units for lower-income residents is threatened by rising energy and water costs. If rising energy and water costs become greater than a property’s operating budget, then owners must tap into reserve funds intended for major and long-term property improvements to cover costs, or in the case of properties without deed restrictions, potentially raise rents. For nonprofit owners, who by design operate their properties close to the margin in order to maintain affordability, rising energy and water costs can lead to deferred maintenance and eventually compromise the long-term affordability of rental homes for low-income Californians.

A December 2016 report issued by the California Energy Commission highlights barriers and recommended solutions to additional energy efficiency investments in low-income multifamily housing, laying the groundwork for changes in program design and administration to more equitably distribute the state’s energy efficiency investments and better serve the multifamily sector.

CALIFORNIA’S MAIN ENERGY EFFICIENCY PROGRAMS

The following California programs specifically help extend energy efficiency to low-income residents and families living in rental housing, either for free or at a low cost. Other programs in addition to these are available for the general public but do not target the low-income sector.

- **California Low-Income Weatherization Program (LIWP)**: The California Department of Community Services and Development oversees this program. Thanks in part to a state law called SB 535, AB 32 cap and trade auction proceeds are dedicated to the California LIWP to extend the reach of the federal Weatherization Assistance Program. LIWP provides full-service technical assistance and incentives for whole building energy efficiency retrofits and solar energy installations in low-income single-family and multifamily homes in disadvantaged communities to cut emissions and save energy.
- **Energy Savings Assistance (ESA) Program**: Overseen by the California Public Utilities Commission, this program provides no-cost weatherization services to all housing types and to both renters and homeowners. Participants must live in a house, mobile home, or apartment that is at least five years old. The program is open to Californians who earn 200 percent of federal poverty guidelines or less.
- **Low-Income Home Energy Assistance Program (LIHEAP)**: A federally funded program overseen by the California Department of Community Services and Development, most LIHEAP funding helps with the payment of utility bills. States have the discretion to spend up to 25 percent of LIHEAP funding on energy efficiency measures in conjunction with weatherization programs.
- **Weatherization Assistance Program (WAP)**: A federally funded whole-building program dating back to the 1970s and housed at the Department of Energy, WAP is run in California via the state's Department of Community Services and Development and targets low-income properties. Residents with an annual median income below 60 percent of the state's median qualify for the program (Source: NRDC draft issue brief)

"It's important that sustainability not be defined just in terms of environmental sustainability but equality and income sustainability…"

Tyson Slocum, Public Citizen

Source: The Press-Enterprise

CHALLENGES IN THE MULTIFAMILY SECTOR

A California Energy Commission report, adopted in December 2016, identified barriers for residents of rental housing and low-income residents to access energy savings:

- Multifamily properties are more complicated—and therefore more complicated to service—than single-family dwellings. Multifamily buildings can vary widely in terms of heating, ventilation, air conditioning and other relevant systems; building age and size; tenant incomes; financing structures; ownership structures and other important factors. In a multifamily building, for example, common areas might be commercial accounts, while apartments and other tenant units are residential accounts. All of this makes one-size-fits-all program models impractical.
- Lack of coordination among California's efficiency programs contributes to funding siloes and inefficiencies and makes the process of determining which programs are appropriate complicated and time-consuming for building owners and managers. This contributes to insufficient and inequitable spending in low-income energy improvement programs.

- Building assessments for efficiency upgrades often reveal additional issues that must be addressed to meet building code standards—such as wiring and structural problems. Available funds are rarely sufficient to address all needed measures, and energy efficiency is often the first sacrifice made to keep retrofits within budget, especially in disadvantaged communities. Furthermore, most energy efficiency incentive programs do not allow funds to be spent on upgrades that are needed before efficient technologies can be installed, representing another barrier for owners.
- Owners of low-income multifamily buildings are often constrained by the limited income generated by the operation of such buildings. These multifamily buildings are designed, contracted, built, and maintained with cost controls in mind, "so when cost overruns occur, energy efficiency is usually the first sacrifice made to keep the building within budget," especially when building owners need to make repairs to equipment and architecture for health and safety (Hynek et al, 2012). Moreover, Henderson (2015) observes, "affordable housing owners typically have complicated financing arrangements that inhibit them from taking on any new debt except at the time of purchase or refinancing."

"Affordable homes are threatened by rising energy costs. There's still a lot more work to be done in California to empower nonprofit affordable housing organizations to keep homes affordable and well maintained for low-income Californians over the long-term.

Stephanie Wang
California Housing Partnership Corporation

OVERCOMING BARRIERS

How can California boost participation in clean energy and energy efficiency programs among multifamily residents, providing energy and bill savings?

Some significant progress has been made with the ESA program, which has historically underperformed in reaching multifamily customers. In November 2016, the California Public Utilities Commission (CPUC) allocated $80 million to enable certain owners of low-income multifamily housing to participate in Energy Savings Assistance (ESA) program. As the CPUC's decision will only help tenants living in multifamily housing with restrictions that guarantee the long-term affordability of most of the property's housing units for lower-income residents, nearly one million other low-income households were excluded from the program and remain urgently in need of efficiency upgrades.

Potential solutions to ensure all Californians can enjoy the benefits of energy efficiency include:

- Establishing high-level, common savings and retrofit goals and metrics across all government agencies
- Providing comprehensive one-stop technical assistance and funding services for energy efficiency, clean energy, and water-energy programs across agencies, so owners can access energy efficiency, water, and solar options in one place
- Committing to long-term, consistent, and sufficient funding for programs for this sector, specifically programs targeting the multifamily sector

- Aligning program eligibility requirements to streamline participation
- Expanding the upcoming Multifamily Affordable Housing Solar Roofs (AB 693) program to reach rent-restricted multifamily housing
- Providing more, and improved, on-bill financing options, that do not require upfront funds from the owner
- Offering program rules that meet the needs of building owners (i.e. allow enough time for projects to be completed)

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RELEVANT FACTS

- Twenty-one percent of California residents face poverty and an additional 20 percent are close to the poverty line, according to the California Poverty Measure. (Source)
- Approximately 43 percent of low-income residents in California live in multifamily housing. According to research, low-income multifamily residents could trim 20 to 30 percent of household energy costs through energy efficiency upgrades. (Source)
- A third of the ESA-eligible population lives in multifamily housing, yet investor-owned utilities spend less than 15 percent of their budgets, on average, serving the multifamily market. (NRDC Issues & Recommendations Memo, 2015)
- California is the top state for energy efficiency jobs, with 321,177 jobs as of 2016. Energy efficiency employs nearly 1.9 million Americans—30 times more than coal mining and ten times more than oil and gas drilling. (Source)
- California can look to other states for programs that successfully cater to low-income multifamily housing residents, including New York, Massachusetts, Texas, Minnesota, Vermont, Oregon, Rhode Island, and New Jersey. (NRDC Issues & Recommendations Memo, 2015)

- An estimate from Energy Efficiency for All revealed the multifamily affordable housing sector could reduce electricity demand by as much as 26 percent with energy efficiency. (Source)
- In a 2016 analysis of the nation's largest cities, researchers found that low-income households spent more than twice as high a share of their income on energy as do households overall. (Source)
- Research has indicated that the need to pay utility bills is the top reason why consumers pursued costly payday lending. Disconnecting utilities can also push low-income families on a path toward homelessness. (Source)
- According to an estimate, only four percent of California families have benefitted from residential renewable energy programs. (Source)
- Over 470,000 California households live in low-income multifamily housing with enforceable regulatory agreements that guarantee the long-term affordability of most of the property's housing units for lower-income residents. (Source)

KEY DEFINITIONS

Multifamily housing is defined here as rental properties with at least five units. A rental property may be a single building or multiple buildings spread across one or more parcels and owned by the same legal entity.

Low-income multifamily housing is defined here as multifamily housing where at least 60 percent of units are occupied by residents with incomes at or below 80 percent of the area median income. Low-income multifamily housing includes properties with different levels of affordability restrictions, ranging from restrictions that guarantee the long-term affordability of most of the property's housing units for lower-income residents, to affordability restrictions that only apply to current tenants, to properties without any affordability restrictions.