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Comments of the California Housing Partnership and California Environmental Justice Alliance on BUILD Implementation Plan

Additional submitted attachment is included below.

Comments of the California Housing Partnership (Partnership) and California Environmental Justice Alliance (CEJA) on the CEC-CPUC Joint Agency Workshop on Building Initiative for Low-Emissions Development (BUILD) Implementation Plan

Docket Number 20-DECARB-01

Submitted: June 29, 2020

Submitted by: Srinidhi Sampath Kumar, California Housing Partnership and Roger Lin, UC Berkeley Environmental Law Clinic
on behalf of the California Environmental Justice Alliance

The California Housing Partnership (Partnership) and California Environmental Justice Alliance (CEJA) appreciate the opportunity to comment on the Building Initiative for Low-Emissions Development (BUILD) Implementation Plan. The Partnership creates and preserves affordable and sustainable homes for low-income Californians by providing expert financial and policy assistance to nonprofit and public partners. The Partnership partners with nonprofit affordable housing owners, environmental and equity organizations, and service providers to expand and enhance climate, energy and water resources benefitting low-income renters residing in affordable multifamily homes. We also provide direct technical assistance (TA) to nonprofit affordable rental housing owners, program implementers and policymakers. The Partnership established the Green Rental home Energy Efficiency Network (GREEN) in 2010, with more than 50 California nonprofit affordable housing organization members, to collaboratively increase access to energy efficiency and renewable energy resources for low-income renters and affordable housing properties. Currently, the Partnership is the outreach lead for the Solar On Multifamily Affordable Housing (SOMAH) program and the Multifamily Low Income Weatherization Program (LIWP).

CEJA is a statewide, community-led alliance that works to achieve environmental justice by advancing policy solutions. It unites the powerful local organizing of member organizations in the communities most impacted by environmental hazards – low-income communities and communities of color – to create opportunities for change at a statewide level. It builds the power of communities across California to create policies that will alleviate poverty and pollution. CEJA envisions an energy system that is just, democratic, equitable, and composed of genuinely clean energy. Low-income communities and communities of color across the state have paid a high price for the existing energy system. CEJA is leading dynamic campaigns to put energy decisions in the hands of these communities. It is seeking to advance small-scale solar and other renewable energy solutions that create local jobs and investments in the neighborhoods that need it the most. Building energy efficiency, rooftop solar, and other clean energy infrastructure creates physically healthier neighborhoods, helps communities transition away from fossil fuel polluting sources, and improves economic prospects in low-income communities of color.

Introduction:

Decarbonization and electrification in low-income affordable housing is needed to improve resident health and comfort, while also reducing the construction costs of affordable housing in California. Currently, construction costs in California are the highest in the country[1]. Even prior to COVID-19, 1.3 million low-income households in California lacked affordable rental homes[2] and with a projected shortfall of rental income losses caused by COVID-19, 79% of California's affordable rental homes are at imminent risk of loss[3]. With that in mind, electrification and decarbonization programs that serve the low-income sector should be designed in a way that is flexible and accessible to ensure maximum participation from this sector. The Partnership, through its vast network, has engaged several affordable housing providers (provider/customer) in providing comments on the California Energy Commission (CEC)'s proposed implementation plan. We also provide specific responses to the concerns/ questions raised by the CEC staff during the presentation. Some of the key concerns we discuss are the follows:

- Providing flexibility to affordable housing providers
- Analyzing and incentivizing soft and hard costs associated with electrification
- Targeting the affordable housing providers early on and providing robust technical assistance

1. **Application Process:**
   The Partnership and CEJA are in agreement with the CEC that the BUILD program application should be through an online portal and make it extremely streamlined. For the program application process, we recommend that funds be made available in two phases, at the minimum. Affordable housing providers are often cash-strapped and operate on tight budgets and timelines. With the financial impacts of COVID-19 and limited availability of affordable housing funding, affordable housing providers need progress payments to make the commitment to remove gas from the property and to make their low-income housing developments pencil out. We recommend that the BUILD program

[1] Carolina Reid, March 2020, The Costs of Affordable Housing Production: Insights from California's 9% Low-Income Housing Tax Credit Program, http://ternercenter.berkeley.edu/uploads/LIHTC_Construction_Costs_2020.pdf

[2] California Housing Partnership, June 3 2020, 55 of California's Counties Lacked Enough Affordable Homes Even Before the Pandemic/ Affordable Housing Needs Report 2020, https://chpc.net/55-of-californias-counties-lacked-enough-affordable-homes-even-before-the-pandemic/

[3] California Housing Partnership, April 22 2020, California Affordable Housing Providers Face Potential $1.7 Billion COVID-19 Loss, https://chpc.net/california-affordable-housing-providers-face-potential-1-7-billion-covid-19-loss/

make available an initial rebate payment to providers as early as Tax Credit Allocation Committee (TCAC) reservation, and no later than at the start of construction. Since BUILD is aimed at new construction developments, availability of funds upfront will be consistent with affordable housing financing programs. The remainder of funds should be made available to the providers at BUILD project completion and verification and not after the Certificate of Occupancy is issued. Several programs for existing low-income housing like the LIWP, Self Generative Incentive Program (SGIP) and Solar On Multifamily Affordable Housing (SOMAH) are already considering or making progress payments available. In fact, Sonoma Clean Power, in a bid to increase the number of on-site electrical storage systems in their service territory, will provide up-front payments to the contractor in an amount equal to the expected SGIP incentive, to reduce the customer's up-front out-of-pocket expense. The CEC should review programs that are offering upfront and progress payments to understand risks and propose risk abatement mechanisms associated with such payments that protects the interests of customers.

The funds should also be reserved from the time of reservation request through completion and should be closely aligned to the affordable housing funding program timelines such as Low Income Housing Tax Credits (LIHTC). These vary by affordable housing funding program but on average the time between the design phase to the construction phase is 3 to 5 years. While developments take long to complete, they are not tied to affordable housing funding timelines. In many cases, a provider may apply for LIHTC and may not receive a LIHTC allocation award and need to reapply for the following round. Hence, the BUILD reservation should be held based on the realities of the affordable housing industry's development timeline.

2. **Incentive Structure:**

For new construction, affordable housing providers make decisions that are spread out during different stages of planning and construction. LIHTC, the largest source of affordable housing financing, is extremely competitive and uses a point system for its application. Because of its competitive nature, this point system acts more like a requirement. However, the application tie-breakers favor developments that request the least amount of tax credits. Despite the availability of tax credits, many affordable housing developers are unable to claim all tax credits and even the smallest additions to costs can make a providers' application non-competitive. Further, the incentive structure and timeline should be aligned with the affordable housing funding application (including but not limited to TCAC and Housing and Community Development funding) timelines and cost-estimates.

An estimate of the total incentive should be made available at the time of reservation along with an upfront payment which should be made available to providers as early as

Tax Credit Allocation Committee (TCAC) reservation, and no later than at the start of construction. This will ensure that the affordable housing providers are able to make clear decisions around timelines and cost estimates. The BUILD team should also be transparent about the models used to project the amount of greenhouse gas emissions reduction resulting from the installation of near-zero emission building technology and the calculations should be done in coordination with the affordable housing provider's design and development team, where necessary. However, this should require as little input from the providers and designers as possible, so the program remains simple and accessible for them.

Decisions around going all-electric need to happen at the early in the process, during the design phase. However, with the timing of the program, there may be properties that are already past the design phase and could be interested in going all-electric based on the funding availability. In those cases, CEC should consider the re-wiring/ re-engineering costs in their models and for the kicker incentives. For streamlining the process further and simplifying incentive structures, CEC could consider these costs as part of a suite of technical assistance services proposed below. Further, in several cases where the local reach codes exceed California's energy code, affordable housing providers still make choices between resident end uses and other local reach code requirements, specifically electric vehicle charging stations while building costs still remain high. Several providers face soft costs associated with going all-electric. Since electrification is new to the affordable housing industry including for engineers and designers, soft costs including costs for designing all-electric developments, complying with Title 24 which is required for TCAC, and costs for commissioning and monitoring post project completion should all be considered as part of the regular or kicker incentive or through BUILD program's additional funds of $10 million. This could be allocated by way of additional design or engineering assistance.

While the Partnership and CEJA believe that through effective outreach there may be coordination with other affordable housing financing housing agencies for outreach and design coordination, housing program dollars should not be considered as part of co-leveraged dollars or as additional program funds. The CEC should allow for further comments after the California Public Utilities Commission workshop on layering building decarbonization incentives held on June 30th, 2020.

3. **Eligible Projects:**
As building electrification is new for the affordable housing industry, placing additional barriers may lead to reduced participation.

   a. *Resident Utility Bill Savings:*

If the BUILD program is intended to be truly transformative, it must adequately address affordability, as noted in the SB 350 Barriers Study[4], a significant barrier to the deployment of renewable resources in low-income communities. While the Partnership and CEJA believe that low-income residents should be prevented from any undue cost impacts based on electrification, the estimates for showing resident utility bill savings should be developed by the CEC, understanding that in new construction these are estimates and actual savings could differ owing to a variety of reasons. Many affordable housing providers who are choosing to go all-electric in their new construction prioritize owing to resident comfort and health. For several developers, going all-electric includes paying a premium by way of soft costs as they are largely inexperienced and believe they are taking risks. Many are also unaware of life-cycle costs and find it difficult to model. Further, in several affordable housing developments, affordable housing providers pay for space and water heating, and laundry. Residents largely pay for in-unit lighting and appliance usage. Through various interviews, discussions and GREEN meetings, the Partnership found that the main barrier to all- electric new construction, especially in larger multifamily affordable housing properties, are electrifying central domestic hot water systems and laundry. In cases where the provider pays for the utility, CEC should automatically make these developments eligible for BUILD without requiring a bill savings analysis (as the tenant bills will not be affected). Furthermore, the BUILD team should also help the affordable housing providers work with housing authorities and agencies to ensure their standard utility allowance schedules are updated to reflect electrification measures more accurately. Currently, the standard utility allowance schedules discourage electrification so the need for coordination with these housing authorities and agencies is a critical step in scaling building decarbonization in the affordable housing community. The Partnership and CEJA encourage the CEC and the BUILD team to monitor all costs and any difference in estimated and actual utility bills over time, so necessary changes could be made in the program. Impacts of Time Of Use (TOU) rates and other variables that could impact changes to electric rates should also be included in CEC's long-term analysis of utility bill analysis. Furthermore, the Partnership and CEJA recommend that the commission review both the San Joaquin Valley Pilot project

[4] CEC, SB 350 Low-Income Barriers Study, December 16 2016, Part A - Commission Final Report, https://assets.ctfassets.net/ntcn17ss1ow9/3SqKkJoNIvts2nYVPAOmGH/7bc56e2692769abda31a2aace7b00147/TN214830_20161215T184655_SB_350_LowIncome_Barriers_Study_Part_A__Commission_Final_Report.pdf

decision[5] and the resolution E-5034[6] to consider various factors outlined in the resolution prior to designing its utility bill savings model.

b. *New Construction definition:*
As raised in the comments during the workshop, CEC should consider pathways for a provider that acquires a property where gas infrastructure is installed.

4. **Eligible Technologies for Basic and Kicker Incentives and Evaluating New Technologies**
BUILD programs should be flexible to include different technologies that are eligible for incentives. With several regulations in place for new construction, flexibility in the type of equipment is essential to remove any potential barriers to participation. In evaluating new technologies, CEC should be aware that BUILD and TECH are market development programs and for many providers heat pumps are new technology. So, allowing a suite of new technologies that are cost-effective and potentially scalable for different building types, while accompanying them with adequate performance warranties, will help spur this market. With all new technologies, there should also be appropriate contractor training and bidding process. Beyond technologies, the BUILD program should also consider options like bulk purchasing that could bring down the costs of equipment and enable ease of training both contractors and affordable housing maintenance staff. While BUILD is a downstream program, it has potential to transform the supply chain.

5. **Bill Savings Analysis**
As mentioned in Section 3.a. under Resident Utility Bill Savings, several considerations need to be made to calculate resident utility bill savings including understanding of the utilities the provider pays for versus the residents. If the BUILD-funded incentives do not impact resident costs, CEC should ensure a more streamlined participation for those developers by requiring one less documentation from those providers.

Since gross rent includes rent and utility costs, the calculation may be made on a monthly basis. However, these calculations and modeling should heavily involve understanding the current utility allowance calculations. Under the proposed methodology, the CEC proposed an option for affordable housing providers to "prepare detailed modeling of each project to document bill and carbon savings". However, the Partnership and CEJA

[5] California Public Utilities Commission, D.18-12-015, Decision Approving San Joaquin Valley Disadvantaged Communities Pilot Projects, December 13, 2018, *available at* https://docs.cpuc.ca.gov/SearchRes.aspx?DocFormat=ALL&DocID=252522682
[6] California Public Utilities Commission, Resolution E-5034, Authorizing Bill Protection Approaches for Pacific Gas and Electric Company, Southern California Edison Company, and Southern California Gas Company San Joaquin Valley pilot participants pursuant to Decision 18-12-015, December 19, 2019, available at https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M322/K776/322776695.docx

propose that any additional barrier to participation should be eliminated and CEC should provide a menu of estimates for several scenarios including TOU options, California Alternative Rates for Energy (CARE), electric rate changes, participation in 100% renewable options offered by Investor Owned Utilities and Community Choice Aggregators and installing solar PV and storage. This is mainly because future electricity rates are uncertain and models based on tiered rates could misrepresent actual utility costs. This should not stall the program implementation and the BUILD team can re-evaluate these savings calculations as new scenarios are applicable.

6. **Technical Assistance and Outreach**

BUILD program will benefit largely from a third-party Technical Assistance Provider (TAP) and outreach provider who has experience working closely with this industry, implementing similar programs. The TAP and the outreach provider should have extensive knowledge of the affordable housing financing, other requirements and barriers. The outreach plan should be finalized after input from a range of stakeholders who understand the low-income multifamily affordable housing sector. The role of the TAP should remain flexible to meet the needs and requirements of the providers and should be tailored to the development for which the funds are being received. Affordable housing providers have different levels of expertise around and staff time to manage all-electric new construction. For effective program implementation, the needs of all different types of providers need to be considered and planned for. The technical assistance and outreach can take several directions and may include[7]:

- Coordinating between the design teams, Title 24, architects, local officials, utilities, TCAC or other financing agency requirements, other energy efficiency/ electrification/ renewable energy programs and the BUILD program administrators
- Consulting on affordable housing financing and utility allowances, equipment design, engineering, bidding, and contractor selection
- Ensuring and monitoring commissioning of equipment and monitoring
- Managing and monitoring performance data

The Partnership and CEJA recommend that of the $10 million budgeted for "BUILD Program Costs (Other)" (D.20-03-027, page 31), $3 million of the BUILD Program Costs (other) be dedicated to technical assistance and outreach. Further, we propose that $7 million of the BUILD Program Costs (other) be set aside for trusted community-based organizations to help residents understand how to use new technologies or demand response strategies without causing an unanticipated rebound effect or sudden bill spikes

[7] Merrian Borgeson and Srinidhi Sampath Kumar, June 29 2020, The Pathway to New All-Electric Low Income Housing in CA, https://www.nrdc.org/experts/merrian-borgeson/pathway-new-all-electric-low-income-housing-ca

when experiencing new fuel sources. The CEC must dedicate adequate resources to ensuring that its program, intended for low-income residents, not only serves those customers adequately, but also derives suitable data for replication in the future. New technology benefits will certainly not "trickle down" to low-income customers absent an adequate investment in not only infrastructure, but also outreach and education in low-income communities.

7. **Evaluation**

Given the nature, scope and potential of the BUILD program, the Partnership and CEJA believe that significant data could be collected that goes beyond conventional metrics and what is proposed by the CEC. To expand electrification and building decarbonization in new construction, inform future program implementation plan and alleviate any barriers, the CEC can track the following metrics:

- Type of technical assistance used
- Property/ Construction type
- Tenant Population
- Climate Zones
- Utility Allowance Schedule used
- Specific hard and soft costs that BUILD program helped avoid
- Co-leveraged programs
- Affordable housing funding type
- Long-term operating expenses and maintenance costs
- Actual bill savings and increases (compare it against the CEC modeled baseline)

Conclusion:

The BUILD program has a tremendous potential in shaping the future of decarbonization in California's low-income building stock. By providing sufficient flexibility and prioritizing the needs of the deed-restricted affordable housing community, this program can be a success and can serve as a model for future advocacy around low-income building decarbonization, including helping shape existing building decarbonization equitably.

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