

## FINANCING

### The Problem – Background

By upgrading appliances and upgrading buildings to make them energy efficient, multi-family rental properties can reduce energy costs by 20-30%. While saving money is an obvious benefit of making energy efficient upgrades, many property owners are hesitant to make the changes, discouraged by the high upfront costs required for making improvements. Additionally, utility expenses are usually borne by renters and not owners, eliminating the financial incentive for building to make improvements (split incentive). Finally, building owners are eligible for tax credits through Qualified Allocation Plans. However, Michigan's QAP emphasizes keeping costs low in the short term and therefore is not currently set up to reward longer term investments in energy efficiency.

### Policy-Based, State-Wide Solutions for Michigan

The ideal policy for overcoming the financial barrier would be a transparent program that provides financing to property owners with easy-to-understand repayment methods that place little economic burden on the owner. Solutions such as these will allow property owners to have access to many technologies that were previously out of their fiscal reach. While some of these policies currently exist, improvements and coordination of programs must be done in order to address the issue effectively, along with education of the decision makers to help them navigate the complexities. The following policies are possible solutions.

1. **On-Bill Financing:** On-Bill financing allows a customer to pay for energy efficient improvements with the help of loans. These loans are then paid back over time and charged directly on their utility bill. Often the loan payments each month are less than the energy efficiency savings each month, meaning that the customer can actually realize some monthly savings. A program such as this opens the door to many energy efficient technologies that were previously out of reach. Costs and savings are passed on to renters keeping costs low for building owners, helping solve the split incentive problem.
2. **Property Assessed Clean Energy Financing (PACE):** PACE allows a customer to assess which energy saving measures work best for their multi-family rental properties and gauge how much the project would cost. PACE then provides 100% of financing needed to get the project done, with the requirement that the loan is repaid over the timespan of 20 years, applied directly to the customer's property tax bill. Over time, the energy savings should become equal to or greater than the loan payments every month. Unlike traditional capital improvement investments, PACE allows for 100% financing and can be spread out over 10-20 years (instead of the usual 3-5 years of a traditional business loan), making the projects cash neutral. PACE is a good solution for large scale projects and for projects over \$250,000. The energy savings must be guaranteed. However, for smaller projects, the fees associated with PACE loans may be cost prohibitive. PACE enabling legislation has been adopted in Michigan (PA270 of 2010), however, counties and municipalities must adopt PACE ordinances for property owners to utilize the program. For projects under \$250,000, Michigan Saves is a financing program currently offered to the multifamily housing sector that provides financing from \$2,000 to \$250,000 to owners for their energy improvement projects. It offers an option

of capital leases for financing, with a \$1 purchase option at the end of the term. The owner can take the title of the property either at the start or the end of the lease. This option allows the owner to conserve money and can provide tax advantages. Utilities offer rebates and other incentives to encourage owners of multifamily units to commit to a Michigan Saves project.

3. **Increase energy efficiency tax credits under the Qualified Allocation Plan (QAP):** The Qualified Allocation Plan is used to allocate Low Income Housing Tax Credits (LIHTC), which is credit directly applicable against taxable income. This is used as an incentive for property owners of multi-family housing units. Property owners apply and are then given points through the QAP to determine how many LIHTC they will receive. Points are given in many categories, including green policy, which encourages property owners to make green changes in order to receive more points and be awarded more LIHTC. By increasing credits for energy efficiency investments and eliminating penalties for short term cost increases, building owners could be incentivized to make significant improvements to their building stock.
4. **Strengthen Utility Relationships with Community Development Financial Institutions (CDFIs):** CDFIs are mission-driven financial institutions that provide loans and other financial services to communities that are otherwise underserved by other financial establishments. Utility companies that aim to provide loans to the multifamily housing sector for green improvements would benefit by strengthening relationships with CDFIs. A CDFI can rely on the utilities to provide valid information, assessments, guidance, oversight and savings reports. This leads the CDFIs to have confidence in the projects, making them more likely to provide financing.

## Other Considerations

Significant education is needed for building owners and for the housing community. Building owners need to understand the long term financial benefits of energy efficiency investments and how the financing tools work. PACE is already authorized under state law and many communities are now adopting PACE ordinances, but the widespread utilization of PACE financing will only happen if the program is understood by building owners.

MSHDA (Michigan State Housing Development Authority) provides both technical and financial assistance to create safe and affordable housing by selling bonds and notes, the proceeds of which are then loaned at below-market interest rates to developers to pay for improvements. A goal should be to coordinate utility options with MSHDA financing cycles so as to make the improvements as inexpensive as possible.

For the housing community, education is necessary to understand the broad impacts that the reduction of energy costs will have on renters. Without this broad education, the long term changes to create major energy efficiency incentives under the QAP will be difficult.

Utilities must also play a role in connecting applicants to low-cost financing. This can be done through one-stop assistance programs which connect applicants to all the resources they need to complete energy improvement projects. The options of low-or no-interest loans must also be considered for some owners.

## Project Background

These policy options were developed by an independent team of experts in the field of housing and energy efficiency. They were brought together as part of a network of individuals and organizations working to improve energy efficiency in multifamily housing in Michigan. Partners

include: Community Economic Development Association of Michigan (CEDAM), Ecology Center, EcoWorks, Energy Foundation, Michigan Energy Options, Michigan Environmental Council, Elevate Energy, National Housing Trust, and Natural Resources Defense Council.

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