

Decarbonizing California's Affordable Housing

A Multisector Roadmap

for Resourcing Equitable Decarbonization in Affordable Housing



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Foreword

This report is a multisector roadmap for electrifying all affordable housing in California to help reach California's climate goals and completely decarbonize all new and existing affordable housing units by 2045, the goal established by state legislation.

We identify strategies to scale equitable decarbonization of housing in Low Income and Disadvantaged Communities (LIDACs) and communities of color by focusing on the different affordable housing typologies, their associated challenges, and financing and investment solutions that can help address them and reach California's renters and vulnerable populations.

Wells Fargo Climate Impact Philanthropy provided support to a team originally comprised of HP Sustainability, LeSar Development Consultants, and Housing Sustainability Advisors. This team is now the **Climate Smart Housing Collective**, anchored by **Community Sustainability Partners** and the **Global Policy Leadership Academy**. We are a collective of individuals and organizations helping leaders across the country focus on the development of programs and financial tools to support the retrofit of affordable subsidized and unsubsidized housing.

Through this work, our team utilized our experience with climate smart housing and engaged partners across public, private, and nonprofit sectors in California, including energy, housing, climate, finance, policy, and community-based advocacy partners. This multisector roadmap is the culmination of our research and collaborative process with expert stakeholders we interviewed and/or convened as advisors to review our work and develop recommendations to address California-specific challenges and opportunities. This report uplifts strategies aimed at not recreating discriminatory community investment practices of the past, and instead prioritizes solutions to ensure that low and moderate-income housing benefit from these investments with protections in place for renters.

With the added momentum from the new infusion of funds that are coming into California from the Federal Inflation Reduction Act of 2022 (IRA), the moment provides a profound opportunity to help Californians of all backgrounds and income levels live in sustainable, high-quality homes. To do this, we must build a more comprehensive strategy to pursue federal funds to bring these investments into historically disinvested communities.

The major goals of this multisector roadmap are:

- (1) To foster collaboration between partners from different sectors, primarily energy, finance, housing, and policy, to determine the most appropriate funding pathways for climate investments to flow into California's LIDAC communities through affordable housing.
- (2) To recommend strategies for reaching more equitable impacts across the state, with steps identified to begin to fill the capacity, governance, and funding gaps for equitable decarbonization in California.

California is at the forefront of these issues given the state's efforts to simultaneously address climate, equity, and housing.

LIDAC housing issues, and how they intersect with green investment, cannot be solved by any one agency or regulator; thus, a cohesive, coordinated effort across various groups is required.

We need to work diligently together to reimagine and design the right policies, network of partners, offerings, and financial systems to expedite and scale green and resilient investments in LIDACs without recreating exclusionary financial practices. This will be key to achieving the state's housing, equity, and sustainability goals.



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Part 1

Introduction

Definitions

Why Prioritize Decarbonizing Affordable Housing?

Why a Multisector Roadmap?

<u>Industry Opportunities and Issues</u>





Definitions

Low-to-Moderate Income (LMI) Residents & Communities: Low-to-Moderate Income Communities are those composed of residents at 80% of the area median income (AMI) or below. This definition is commonly used in both housing and energy program circles to target eligibility for federal- and state-funded programs. Geographically, an LMI area is defined by the U.S. Department of the Treasury as a census tract with a poverty rate of at least 20 percent. For or a household, LMI is characterized by an income of up to 80 percent of the AMI. Through a definition employed under the Greenhouse Gas Reduction Fund, EPA has promulgated a consolidated definition for LMI households and geographies under a new acronym, LIDAC – a Low Income/Disadvantaged Communities. These terms are often utilized interchangeably, though they all have slightly different meanings. This report primarily relies on the term LIDAC throughout.

Low Income/Disadvantaged Communities (LIDAC): A community that meets at least one of the following characteristics: Identified as disadvantaged by the Climate and Economic Justice Screening Tool (CEJST); Any census block group that is at or above the 90th percentile for any of EJScreen's Supplemental Indexes when compared to the nation or state; and/or any geographic area within Tribal lands as included in the EJ Screen.

Subsidized Affordable Housing: The report focuses primarily on existing and new construction deed-restricted multifamily rental properties that provide long-term affordability through regulated, below-market rents, including programs financed with Low-income Housing Tax Credits and public subsidies.

Unsubsidized Affordable Housing: This report also discusses what is commonly referred to as market rate affordable housing or "Naturally Occurring" Affordable Housing (NOAH). Rents in these properties are relatively low compared to other market rate rents for the applicable region. These properties are typically Class B and C rental buildings or complexes, often constructed between 1940 and 1990. In-place rents are at levels technically affordable to LMI households but are generally not subject to enforceable affordability covenants. Exemptions to this may include local rent control laws. In addition, some public funding programs may include short-term affordability requirements.

Decarbonization: The critical goals of decarbonization are to reduce greenhouse gas emissions while simultaneously addressing housing cost burdens and improving housing quality. Decarbonization stemmed from more traditional concepts such as energy efficiency and resiliency. The fundamental characteristics of decarbonization include:

- Reducing energy load with high performance envelopes and improving indoor air quality through indoor air movement:
- Installing highly efficient, all electric equipment and appliances such as heating and cooling equipment, domestic hot water heaters, stoves, and clothes dryers; and
- Utilizing demand controls, on-site renewables, and energy storage to manage electric energy consumption.



Why prioritize decarbonizing affordable housing?

According to the <u>California Energy Commission's 2021 Building Decarbonization</u>
<u>Assessment</u>, all buildings need to be all-electric to achieve California's 2045
carbon neutrality goals.

Decarbonization of affordable housing is thus a critical step toward reaching California's carbon neutrality goals and addressing both environmental and social challenges faced by vulnerable communities.

Low and Moderate Income (LMI) households and Black, Indigenous, People of Color (BIPOC) are the most impacted by the simultaneous effects of the climate and housing crises and are the primary populations in subsidized and unsubsidized affordable multifamily dwellings.

Low-income households, particularly Black households, also face the greatest energy burden in the country. Data from UC Berkeley shows that Black renters pay \$273 more for energy each year than their white peers, and Black homeowners annually pay \$408 more for energy than white homeowners.







Why a multisector roadmap?

More multisector coordination will develop solutions that work across energy and housing, will achieve more predictable outcomes, and will scale impact for LIDACs and climate goals.

Our Research: The Team surfaced more than 60 programs designed to reduce carbon emissions and equitably transition affordable housing energy use from fossil fuels. There are state and regional programs, all with their own strengths and weaknesses, geographic criteria, and timelines. The funding comes from disparate sources with different requirements, timelines, metrics of success, policy priorities, and regulatory requirements.

Findings: Of those 60 programs, there are 11 key sources that are most used and well-resourced. Our research also identified 17 entities that provide most of the funding programs for the development and preservation of affordable housing and the implementation of energy efficiency and sustainability components in affordable housing.

This adds significant complexity to the industry making it difficult to navigate, less efficient to manage, and limits scaling opportunities and overall progress to meet the state's climate goals. Much more coordination is needed to maximize limited resources.





Invest in affordable housing and local partnership to create more equitable energy funding

Ensuring the money flows into affordable homes, whether subsidized or unsubsidized, must define how we approach a new era of climate and housing investment.

Our research indicates that achieving better racial equity impacts and outcomes in energy programs results from:

- Flowing money through state-run affordable housing programs to ensure LIDACs benefit
- Governance and administrative structures that establish underwriting to mission-aligned regional partners that have local relationships and trusted community partners that can effectively target the hardest to reach communities



Multisector collaboration is necessary to achieve more predictable outcomes

Stakeholders noted a tension between the various sector needs to achieve their own policy priorities while also working on the decarbonization of affordable housing. Despite this, stakeholders acknowledged the need for stronger collaboration as a steppingstone towards more effective program design. California state agencies have continued making progress in their cross-agency collaboration, as exemplified by Executive Order N-2-24 Section 2(d).

The complexity of both energy and housing sectors requires a comprehensively financial support for a team that can navigate both industries and the implications of specific program elements to reach successful implementation for LIDAC communities.



Industry Opportunities in CA

Climate Goals are More Aggressive

CA is the only state with a comprehensive carbon neutrality plan, with a goal of reaching net zero carbon emissions by 2045, one of the most ambitious examples of climate legislation in the world.

Building Code is More Aggressive

Title 24, the section of the CA Building Code that regulates building energy efficiency standards in both new construction and existing buildings, is generally sufficient for developers to meet common green building certification program standards.

Robust LIDAC Administrative Infrastructure

The state boasts a multitude of policies, programs, and organizations committed to the intersection of climate, equity, and housing.

Notable among these are the state's

Greenhouse Gas Reduction Fund, the Strategic

Growth Council, and the CA Energy

Commission.

Inflation Reduction Act and Bipartisan Infrastructure Law

The IRA and BIL present a new set of funding opportunities. IRA provides \$369 billion for investments in climate resilience, energy security programs and efficiency improvements, with many funding programs boosting incentives for LIDACs (see Appendix: Federal Resources – Inflation Reduction Act).

California is well-known for its aggressive and comprehensive climate legislation that far outpaces other states. A series of landmark policies implemented in the past two decades has seen California become a leader in limiting greenhouse gas emissions and transitioning to more sustainable means of energy production.

With the California State Legislature setting even more stringent interim goals of 90% zero-carbon electricity sales, the state offers an incredible opportunity to implement a variety of energy efficiency programs to affordable housing.



Industry Issues in CA

In 2023, our team conducted an analysis of California's climate goals alongside the funding currently available to upgrade and build affordable housing to meet state climate goals. The result was a financial gap analysis detailing the additional resources required to fill the funding gap.

The annual funding gap to decarbonize California's affordable housing stock is \$2.2 billion per year, or a total of \$48 billion through 2045.1

Funding to decarbonize affordable housing will have to come from somewhere, but there is no one-size-fits-all strategy.

Increased Harm to Tenants

Most program regulations do not include protections to prevent tenants from receiving rent increases, so costs can be transferred to low-income tenants causing further harm in LIDACs.

Grid Upgrades + Capacity Gaps Across the Industry

The overall grid upgrade needs are significant. Securing investments and funding, and implementing retrofit features is a new, complicated, time-consuming process that requires training, technical support, and specialization across the spectrum of impacted parties, from the public sector to housing practitioners to investors to general contractors.

Return on Investment (ROI)

Affordable multifamily requires dedicated funding with specialized terms due to their complex financing structures and restrictions on rental incomes, making ROI more challenging.

Mismatch Between Finance Structuring

Energy money is mostly deployed through incentives and rebate structures that don't work with subsidized affordable housing capital stacks or provide enough incentive for an already stressed housing sector to increase uptake of the programs. For unsubsidized properties, programs must incentivize investment and protect tenants from rent increases or displacement.

1. Reference: Gap Analysis – Driving Energy Efficiency and Renewable Energy Funds into Low- and Moderate-Income (LMI) Communities in California



Part 2

Multisector Roadmap for Resourcing Equitable Decarbonization in Affordable Housing

Our Major Goals

Financing Steps

Program Design Steps



Our Major Goals

Collaboratively determine the most appropriate funding pathways to scale equitable decarbonization of housing in California's LIDACs to advance the state's climate goals.

Provide recommended strategies for filling the capacity, governance, and funding gaps for equitable decarbonization in the state.



Financing Steps

Our roadmap is marked by four financing strategies to help fill the financing gap in decarbonizing CA's affordable housing



HARNESS NEWLY EXPANDED TAX CREDITS

Help housing developers harness the new federal energy tax credits through the IRA.

STRUCTURE FEDERAL ENERGY FUNDS FOR LIDACS

Leverage federal funds into existing energy incentive programs to directly serve LIDACs and enable more extensive capital upgrades and decarbonization.

LEVERAGE PRIVATE CAPITAL

Utilizing a public or green bank-type entity to secure federal dollars can increase and leverage private and public funding.

PRIORITIZE STATE FUNDS FOR NET-ZERO AFFORDABLE HOUSING

Increase state investments to directly benefit affordable housing projects that meet net-zero standards. Start with the state programs that have the best uptake from the affordable housing sector with a particular emphasis on existing developments.





Harness Newly Expanded Tax Credits

Provide education and technical support to affordable housing developers on how to integrate new energy federal tax credits provided through the Inflation Reduction Act.

Direct benefits to affordable housing developers from IRA and BIL could amount to \$125,000,000 a year.

The Inflation Reduction Act (IRA) and Bipartisan Infrastructure Law (BIL) present a new set of funding opportunities that developers can access directly in pursuit of their sustainability goals and to fill gaps within affordable housing developments.

These resources can play a critical role to reduce carbon emissions, preserve existing affordable housing, and leverage housing investments when constructing new affordable units.

Yet to secure these resources, most affordable housing developers will need technical support.

Many affordable housing developers are still not fully aware of the opportunities and are clamoring for support in understanding the programs, applying for them, and technically integrating the opportunities into their projects.

A substantial technical assistance network can be created to educate the affordable housing community about the opportunities and provide training modules, workbooks, sample templates, financial modeling, and deep engagement through individualized support into specific deals and portfolios.





Harness Newly Expanded Tax Credits

Provide education and technical support to affordable housing developers on how to integrate new energy federal tax credits provided through the Inflation Reduction Act.

Given the complexity of both energy programs and affordable housing development in California, successful implementation of green energy programs within the affordable housing sector requires a comprehensively sourced team of experts who can understand both sectors and the implications of specific program elements.

Recommended Pathway



The IRA Section 45L Energy Efficiency Home Credit is an as-of-right credit earned immediately for qualified developers but often requires consultant support early in the process to determine eligibility.

- To bring in these resources, start by building up capacity of organizations already providing energy efficiency technical support to the housing community, such as California Housing Partnership, Reginal Energy Networks, and other providers.
- Coordinate a statewide strategy to build a decarbonization technical assistance network in California leveraging and investing in state, regional, and local capacity.



Leverage Increased Federal Solar and Energy Tax Credits

- IRA Solar Tax Credits: Increased from 26
 to 30 percent, with tax credit boosts for
 certain projects, including low-income
 properties, that can go up to 70 percent;
 Includes a tax credit for battery storage.
 Nonprofits can take cash payment in lieu
 of the tax credit.
- IRA Section 45L Energy Efficiency Home
 Credit is a tax credit stackable with LIHTC;
 (45L) incentive is up to \$5,000 per unit for
 3rd party certification, and the 179D
 Incentive is up to \$5 per square foot
 based on site EUI reduction (may be
 applied to commercial multifamily).





Structure Federal Energy Funds for LMI Housing

Leverage federal funds into existing energy incentive programs to directly serve LMI communities and enable more extensive capital upgrades and decarbonization.

More than \$582 million is anticipated to be allocated to CA for the HOMES/HER and HEEHRA/HEAR programs.

The IRA includes two residential energy rebate programs and funding for contractor training grants. The funds are being administered from the U.S. Department of Energy to the State Energy Office. California will receive close to \$600 million for the Home Efficiency Rebates (HOMES / HER) rebate program and the point-of-sale Home Electrification and Appliance Rebates (HEEHRA / HEAR) program (see Appendix: Federal Resources – Inflation Reduction Act for more details).

Increased incentives from federal programs help overcome upfront costs of installing the most efficient appliances.

Increased funding for incentive programs would help to overcome barriers of added upfront costs of decarbonizing buildings, allowing installation of most energy-efficient electric appliances possible to meet the state's GHG reduction goals.

In addition, low-income homeowners can greatly benefit in bill savings seen through the California Alternate Rates for Energy (CARE) program, which provides a higher discount of 35 percent for electric service compared to a 20 percent discount for gas service.

Federal Funds create opportunities to bring cost savings and GHG reductions to LIDACs.

State agencies need to prepare to apply and receive funds by building a pipeline of projects ready for use.

State agencies can coordinate to ensure the programs are effectively distributing funds to achieve decarbonization goals in LIDACs.



Structure Federal Energy Funds for LMI Housing

California's state agencies can leverage federal funds into existing energy incentive programs to directly serve LIDACs and affordable housing, bringing both cost savings and progress towards GHG emission reduction goals.

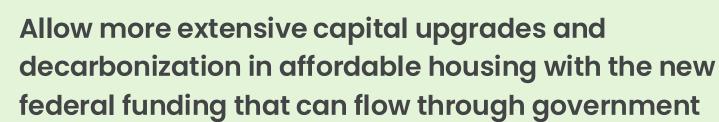
Additional funding could be used to enable more extensive capital upgrades and decarbonization as part of this programs.

Recommended Pathway

Enhance Existing State Programs with Federal Funds.

The IRA includes \$9 billion for the DOE HOMES/HER (\$4.3B) and HEEHRA/HEAR (\$4.5B) programs with significant per-unit investments (up to \$8,000/unit) in consumer home energy rebate programs focused on low-income consumers for energy efficiency and electrification.

California will receive nearly \$600 million in funding, with \$96M integrated into the TECH Clean California program and \$194M in HEEHRA funding currently unprogrammed (see Appendix: Federal Resources – Inflation Reduction Act for more details).



housing agencies.

Leverage unprogrammed federal funds into California's existing energy incentive programs to enable deeper capital upgrades for low-income households and existing multifamily buildings like the:

- Building Initiative for Low-Emissions Development (BUILD) Program provides technical assistance and incentives for new all-electric affordable buildings
- Solar on Multifamily Affordable Housing (SOMAH) funding for solar should also include decarbonization funding used for existing multifamily buildings



Utilizing a public or green bank type entity to secure federal dollars can increase and leverage private funding.

The State of California has several programs that use state funds to leverage both private capital and provide technical assistance. With the low-interest debt coming from the US EPA Greenhouse Gas Reduction Fund to fund energy and solar, we estimate that if the state utilizes a public or green bank type entity to secure federal climate dollars, it can increase and leverage funding to decrease the gap to meet state climate goals. There are two ways this can happen:

Federal Funds create opportunities to build a pipeline of projects to bring cost savings and GHG reductions to LIDACs.

When sizing loans for high-performance buildings, private lenders hedge risk by reducing the amount of energy savings projected. Considering high-performance buildings employ new technologies and require different maintenance strategies, this approach can be justified.

However, commercial loans are sized based on income available to pay debt. When a lender values or under-values energy savings in high-performance buildings, this reduces available upfront funding. Typical underwriting of energy savings from high-performance buildings is 50 percent of savings.

If all the private lenders in California learn how to ensure high-performance buildings perform as anticipated, it would be possible to increase the savings underwritten from 50% to 85%. If able to do that on all debt issued to finance new affordable housing in California each year, it could unlock an additional \$100,000,000 in funding per year.

Leverage federal funding to lower interest rates on privately issued mortgages to raise capital to reinvest in decarbonization.

Federal funds can be utilized to lower interest rates on privately issued mortgages, and the state could raise a significant sum to fill the gap in meeting climate goals.

By using US EPA funds to lower interest rates by 1 percent on all the private debt issued to affordable housing developers, it could raise \$500,000,000 per year, which could be reinvested in decarbonization retrofits.



Utilizing a public or green bank type entity to secure federal dollars can increase and leverage private funding.

Recommended Pathway

Identify a statewide green lender for affordable housing.

State's can identify one or a small handful of dedicated statewide organizations to become a green lender for affordable housing. These agencies can play the critical role needed in delivering energy funding into LIDACs by leveraging private capital to create a pool of IRA capital set asides for affordable housing. More strategies this green lender can pursue are in Table 1. In California, the California Infrastructure and Economic Development Bank (IBank) and the CA State Treasury Office (the main administrator of interest rate buydowns through the Go-Green programs), serve in this role.



state.

California IBank, SGC, LWDA, CEC and CPUC applied to the US EPA Solar For All Program (S4All) to leverage the existing market for solar energy to reach homes and businesses most in need statewide through new capacity and expansion of established programs. The state received a \$250 million award from S4All. This team can work with housing agencies to formulate a strategy to utilize the Solar For All Program funds, building off the successes of the existing Solar on Multifamily Affordable Housing Program (SOMAH).



A statewide green lender for affordable housing in California, such as California IBank and the CA State Treasury Office, can play a critical role in scaling delivery of energy funding into LMI communities across the state by leveraging private capital and creating a pool of IRA capital set asides for affordable housing. Green lenders can implement the following strategies to fill the gap needed for equitable decarbonization of affordable housing.

Table 1. Financing Strategies For A Green Lender In California For Affordable Housing

Credit enhance first position mortgage products.	The dedicated organization can work with first-mortgage lenders, using their funds to create credit-enhancement products that enable first-mortgage lenders to provide even better terms on existing products in affordable housing. Target these funds to LIDAC projects pursuing carbon reduction efforts. This fund should include a focus on reducing interest rates on private capital by at least 1%, or 100 Basis points.
Improve underwriting of energy savings.	Leveraging energy bill reductions will lower expenses, boost project income, and ultimately increase the upfront loan size to fund decarbonization. A dedicated organization could ensure their financing programs underwrite at least 85% of energy savings as a condition on receiving subsidized capital. Creating better rates and boosting NOI.
Utilize EPA National Clean Investment funds to fund the dedicated organizations.	State agencies can pursue partnerships with National Clean Investment Fund awardees (see Appendix pg. 2 for awardees) to make direct investments in state financing products or low-interest loans, and to coordinate and assist with gathering/providing information on California affordable housing properties that present a viable project pipeline in LIDAC communities across the state.



We suggest that 5 key actions taken by a state agencies and other stakeholders would increase private investment across California by addressing the most common challenges and misperceptions in the private lending sector. Taking these actions collectively over time will increase certainty on returns, mitigate risk, and develop better benchmarking and underwriting processes across the industry.

Table 2. Increase Private Investment In Affordable Multifamily Energy Efficiency: 5 Actions

Streamline Data Collection + Sharing	Streamline data collection and sharing across the state to develop a standardized public database that captures performance and cost comparison data of high-performance new construction and deep energy retrofits of affordable, multifamily properties across California. Providing the data as an expense comparable would be useful and help mitigate the currently common, more drastic risk assumptions lenders make for high-performance buildings. Tracking the performance of buildings across different geographies, building types, and age in the state would provide useful data and assist with proving savings opportunities across different markets and building types statewide.	
Training	Engage engineers and underwriters at lending institutions across the state to reduce their uncertainty when evaluating energy efficiency savings, build their capacity, increase their understanding of energy efficiency opportunities in affordable housing, and to develop more accurate benchmarking and underwriting standards.	
Low Barrier Technical Assistance	The state can provide strategic leadership to coordinate technical support already provided by energy, housing, and climate a gencies across the state and develop a clearinghouse of technical assistance providers for housing, energy, and other climate projects. Through this process, identify the technical expertise available and where gaps still exist for specific technical and wraparound services, such as anti-displacement avoidance planning services, technical support to ensure newly introduced features maximize performance and efficiency, and specialized assistance lenders require. When a throughline of TA can be provided to support owners, protect residents, and assist lenders, the state will be positioned to mobilize public and private capital together and scale investment in low- and moderate-income communities without causing harm to residents.	
State Incentives + Guarantees	The government can provide incentives, such as tax benefits for properties that engage in energy efficient renovations that meet thresholds, which would provide a guarantee of energy and cost savings and would make underwriting easier for private lenders to invest more in these high-performance buildings. See next Table 3 for more information and examples.	
Comprehensive Alignment of State Goals	Provide clarity on the state's goals to help limit competing interests at the local level. Developing a long-range plan on how to decarbonize California's affordable, multifamily residential real estate to meet the state's Climate GHG reduction goals would be an asset to the market and draw in more investment. This would allow the financial industry to explore financial and programmatic innovations (based on existing programs) to help accelerate scaling efforts and support more properties. Engage with resources and capacity from the California Workforce Development Board, their programs, and data To ensure the field has the workforce capacity to scale up the transition of affordable housing properties.	



We suggest that 5 key actions taken by a state agencies and other stakeholders would increase private investment across California by addressing the most common challenges and misperceptions in the private lending sector. Taking these actions collectively over time will increase certainty on returns, mitigate risk, and develop better benchmarking and underwriting processes across the industry.

Table 3. Primary Financing Strategies For Leveraging Private Capital For LIDAC

Fill Financing Gaps	Use GGRF capital to fund all energy measures to layer in more private capital. EXAMPLE: Affordable housing solar projects: Fill gaps with GGRF capital and indirectly boost NOI with savings to then take out more debt to do more scope. EXAMPLE: Use GGRF NCIF capital with existing housing finance agency or other housing funding sources to fill gaps for reaching decarbonization goals.	
Lower Cost of Private Capital	Use GGRF capital to create better rates for private capital. EXAMPLE: Blend GGRF with private capital to lower the rate, allowing the same loan payment while borrowing more. EXAMPLE: Improve underwriting of energy savings and give rate adjustments for projects meeting green requirements, boosting Net Operating Income (NOI).	
Reduce Risk of Private Capital	Use GGRF dollars to help de-risk perceived risk for private investors. EXAMPLE: Create loan loss reserve, loan guarantees, or credit enhancements to provide security to a lender and better terms for the borrower. EXAMPLE: Use GGRF dollars for deeper loan-to-value to deploy more capital, or bigger loss positions than private capital. EXAMPLE: #1 from slide 25. Credit enhance first position mortgages.	

California's Green Bank seeks to deploy capital quickly and efficiently while building a durable program that can support California for years to come.

The California Infrastructure and Economic Development Bank ("IBank") and the State Treasurer's Office ("STO") jointly serve as California's "Green Bank." Informed by the Climate Financing Request for Information that IBank issued in December 2023, California's Green Bank anticipates offering the following products at the launch of their program under the National Clean Investment Fund:

- A Climate Loan Guarantee Product (Reduces risk of private capital)
- · A Climate Loan Participation product (Lowers cost of private capital), and
- A Climate Incentives Bridge Loan product (Helps fill financing gaps).

More details on the RFI and the proposed financial products IBank plans to offer in California's market for climate infrastructure can be found here.



Prioritize State Funds For Net Zero Affordable Housing

Increase state investments to directly benefit affordable housing projects that meet net-zero standards. Start with the state programs that have the greatest uptake from the affordable housing sector.

Targeting existing state programs, such as the California Climate Investments (CCI) programs that are embraced by the affordable housing sector can bring greater impact.

The Affordable Housing and Sustainable Communities (AHSC) program is one of the largest state-financed public subsidy programs from the Capand-Trade funds that the affordable housing sector has embraced. It requires 50% of its program funds be invested in Disadvantaged Communities (DACs) and provides direct capital for the construction of affordable housing units paired with grants for transit-related infrastructure projects for residents and the community at large.

As of November 2023, AHSC has allocated nearly \$4.5 million resulting in 140 projects and an estimated 3.4 million metric tons of reduced GHG emissions. While AHSC is already achieving very high GHG-avoidance buildings, it mostly funds new construction. Additional funds directed to the AHSC program that would specifically support decarbonizing existing affordable housing could help fill an important gap for this property type and help bring more AHSC resources to disadvantaged communities.

Cap-and-Trade auction proceeds can help fill the funding gap and bring benefits to priority populations.

Many state programs are working to support the decarbonization of affordable housing, but they are not large enough to fill the gap.

The Cap-and-Trade Program is a financial mechanism launched in 2013 which requires GHG-generating entities to comply with mandated reduction standards through the purchase of allowances and a limited number of offset credits.

Billions of dollars from the Cap-and-Trade auction proceeds are directed to California Climate Investments (CCI) to reduce GHGs and benefit priority populations. From December 2022 through the end of May 2023, over 84 percent of the CCI benefited disadvantaged communities and low-income communities and households, well above the 35 percent required.



Prioritize State Funds For Net Zero Affordable Housing

Increase state investments to directly benefit affordable housing projects that meet net-zero standards. Start with the state programs that have the best uptake from the affordable housing sector with a particularly emphasis on existing developments. Move to adjustments for valuing carbon in property appraisals.

Recommended Pathway

Assess how Cap-and-Trade revenues and state energy programs can work with the state's affordable housing programs to leverage new solutions

Directing more resources to meet net-zero standards in existing state programs that have both (1) high-uptake from the affordable housing community and (2) resources dedicated to LMI households will help meet the state's climate, equity, and housing goals. See Table 4 for more details on strategies.



Provide financial incentives for net-zero affordable housing projects.

This could be done through tax credits, grants, or other forms of financial assistance.



Move to ensuring carbon is valued in property appraisals.

Property appraisals can also serve as financial incentives. The environmental and economic costs of carbon emissions need to be considered when making decisions about the value of a property.



Prioritize State Funds For Net Zero Affordable Housing

Increasing state investments and incentives to directly benefit affordable housing projects that meet net-zero standards could help scale the production and preservation of affordable housing to reach the state's climate and housing goals. Starting with the state programs that have the best uptake from the affordable housing sector would help yield the greatest impact most quickly while the state progresses in streamlining energy and housing finance programs. AHSC is one such proven program that the affordable housing industry has gravitated towards. It is successful in achieving very high GHG reductions in new affordable housing construction and has pushed multisector collaboration in the field, advanced innovations, and tested limits for solar construction in the affordable housing industry in California. We recommend that the state consider applying these strategies and lessons from AHSC on existing developments. The following strategies are opportunities the state can continue exploring to scale equitable decarbonization and net-zero affordable housing.

Table 4. Strategies to Prioritize State Funds for Net-Zero Affordable Housing in California

Explore leveraging DOE LPO Financing with AHSC

The AHSC program has found that new dense infill buildings that are more than 3 or 4 stories have difficulty generating sufficient power from rooftop solar alone and require gas heating for water. For their Resiliency Center Program and Transformative Climate Communities program, SGC is working to competitively select a third-party Virtual Power Plant (VPP) provider who applies for the Department of Energy (DOE) LPO financing to work directly with SGC grant recipients of these programs to design, finance, build, own, and operate a power purchase agreement (PPA) on the grant recipient's space/facility. Exploring if a PPA strategy like this could work with AHSC-funded projects, particularly housing projects that do not already have solar or battery storage, could unlock more opportunities for net-zero affordable housing.

Establish an AHSC Pilot Preservation Program Set Aside using CCI funds leveraged with federal energy programs

AHSC allows for preservation projects, yet in practice these projects haven't been competitive. With the increasing state budget challenges in 2024 and elimination of the \$500 million appropriated to Foreclosure Intervention Housing Preservation Program (FIHPP), the state is facing an ever-growing crisis of homelessness and insufficient resources to preserve existing units. This creates an opportunity for AHSC program to structure a pilot preservation program and preservation set aside for AHSC. The pilot could establish more realistic GHG reduction targets for existing subsidized and unsubsidized private affordable housing properties. The state could also explore collaborating with state energy programs to help invest in decarbonization retrofits of these properties and leverage the technical support network developed for FIHPP to support the owners and tenants during the transition of these properties.

Evaluate CCI Programs to decrease tax credit

Many AHSC projects face challenges receiving full funding from CDLAC and CTCAC due to the competitiveness of these programs. An increase of CCI or other funding for AHSC could cause a bottleneck in the final phase of funding, which could ultimately disencumber funding.

Before considering adding more funds to AHSC, the state can evaluate other projects funded under CCI to determine if they should be moved to other direct funding or eliminated in order to increase affordable housing awards in other CCI programs that can support the decarbonization of affordable housing, such as AHSC or the Transformative Climate Communities programs. An increase in award amounts for net-zero affordable housing projects would help reduce the funding needed from other sources in a LIHTC structured project, while also working to fill the financing gap for net-zero developments.



Program Design Steps

Our roadmap details five program design strategies to scale equitable decarbonization of housing through multisector collaboration.



ACCELERATE INTERAGENCY COLLABORATION

Take deliberate steps with energy, housing, and climate agencies to coordinate resources allocation and program delivery.



INCREASE DECARBONIZATION PLANNING & RESEARCH

Establish a multisector statewide commission to conduct strategic research and analysis to inform policy and regulatory changes.



DEVELOP AND MAINTAIN PROJECT PIPELINES

Develop and maintain project pipelines that include multiple housing typologies to increase competitiveness for new funding.



ENHANCE AND COMBINE ENERGY PROGRAMS

Identify what is working for both agencies and affordable housing developers and enhance it.



IMPLEMENT TRAINING & TECHNICAL SUPPORT

Develop new training materials for the IRA and provide group trainings and direct technical assistance.



PROGRAM DESIGN STEPS

Accelerate Interagency Collaboration

By looking at existing successful administrative structures, housing, climate and energy agencies can further leverage partnerships to develop and implement more effective and achievable funding interventions focusing on devising new programs or adapting current ones. For example, state or local agencies can draw from New York State's Clean Energy Initiative, which takes State energy dollars and combines them with State affordable housing subsidy dollars into one subordinate loan package to fund high-performance improvements to affordable housing.

Recommended Pathway





Coordinate with regional and local energy and housing organizations in the conversations, applications, and solutions.

Leverage new and emerging housing finance tools at the local state and regional levels. Focus on housing agencies that possess the flexibility to adapt existing programs or create new ones specifically to integrate decarbonization resources into the programs, such as competitive scoring criteria and by including energy efficiency retrofits in eligible costs.

Designate a single entity to lead and centralize policy development and program design.



PROGRAM DESIGN STEPS

Increase multisector decarbonization planning and research

In 2023 we held two advisory meetings with stakeholders from the housing, energy, advocacy, and equity sectors at the State, local, and regional level. The focus was to walk through barriers and opportunities to meet funding gaps to meet State climate goals for affordable housing.

One major barrier identified was that the current landscape of resources for housing and climate is disaggregated, unknown, or does not work well together. Today, there is not a clear pathway to pursue both housing and energy funds, or a clear way to quantify costs or analyze risk.

Advisory Board members expressed interest in continuing to convene meetings of multisector stakeholders to level set and collaboratively solve the funding gap.

Facilitating multisector collaboration to ensure regular coordination and progress in the same direction will help state actors address the funding gap.

Recommended Pathway



Establish a multisector statewide commission or workgroup to:

- Study more deeply the different ownership types and associated challenges for unsubsidized affordable housing
- Understand and develop tenant protections needs for decarbonization projects across the state for different affordable housing typologies
- Detail agency needs and opportunities to support an increase in sustainable energy investments in LIDACs



Gather data from housing, climate, and energy agencies to create a streamlined data system and conduct a full assessment of state and regional programs to:

- Compare program uptake, application, regulatory, and compliance processes
- Identify opportunities to enhance or consolidate programs
- Identify opportunities to establish or increase set-asides for LIDACs within energy programs



Next, complete a strategic analysis to develop high-impact, cost effective actions that can leverage federal decarbonization energy and climate funding with affordable housing funds to further encourage all-electric construction and rehabilitation of existing properties, protect tenants, and establish affordability covenants in ways that meet the needs of communities, developer/implementation partners, and agencies.



Pursue policy changes at the state-level for legislation and program regulations that will truly reach LIDACs and create more coordination across agencies and policies.



PROGRAM DESIGN STEPS

Develop and maintain project pipelines that include multiple housing typologies

To increase competitiveness for federal funding opportunities, the State will need to quantify project pipelines.

Focus on building project pipelines that include multiple affordable housing typologies in different regions of the state, including urban, suburban, rural, and disaster-prone areas.

Affordable housing typologies should include existing unsubsidized affordable housing (both large and small), regulated affordable housing (including public housing), and new construction. This will provide the ability to test and understand implementation challenges more clearly, and compare any new strategies employed by region and/or housing typology.

Recommended Pathway



Existing Unsubsidized Affordable Housing: Start with state and local programs across the state, such as:

- Regional acquisition-rehabilitation programs working with community land trusts and nonprofit or mission-aligned developers.
- Initiatives targeting BIPOC-led developers.
- HCDs FIHPP program, which includes 1-25 unit properties, a large portion of unsubsidized affordable housing across CA.



Existing Regulated Affordable Housing: Given the limited preservation funding across the state and barriers with the bond cap limiting resyndications, focus on:

- New or existing financing tools at the local and state levels that include preservation as a priority.
- Local Housing Authorities pursuing RAD conversions of their public housing projects.
- Prioritize projects from these programs that can integrate in energy dollars to support decarbonization and other MCIs (where possible) as pilots for decarbonization.



New Construction Affordable Housing: Integrate energy funding into the existing housing financing pathways through state and local housing agency term sheets, programs for bond financing, and LIHTC.

 Allow flexibility in programs, such as including soft costs and capital upgrades as eligible expenses.



PROGRAM DESIGN STEPS

Enhance and combine existing energy and affordable housing programs

Identify what is working for both agencies and affordable housing developers and enhance it. Target technical assistance to the programs that are working.

Through multiple interview and feedback sessions affordable housing developers shared a common concern that there are too many energy incentive programs.

The ones that exist are too small, and the application processes are too onerous relative to the benefits that they provide.

Recommended Pathway



Convene housing and energy agencies to hear feedback from housing owners and open a dialogue about the future of the energy programs.

- Identify the specific programs that are successful for both agencies and developers.
- Examine ways of improving uptake of existing clean energy programs with different owner types, focusing on owners from low-income areas and historically disinvested communities.



Determine how to streamline and prioritize programs for increased uptake in LIDACs. Building off research and planning efforts in previous steps, work with the multisector state leadership (such as a statewide commission) to analyze the assessment of state and regional programs and related findings to prioritize and determine which programs to enhance, consolidate, or eliminate.



Develop and implement strategies to enhance those priority programs to design for behavior change and predictability by authorizing programs for the long-term and ensuring funding awards are flexible, easy to use, and large enough to change behavior for affordable multifamily properties



"soft" subsidy program that can serve properties of all sizes to address necessary capital improvements and decarbonization retrofits (including system upgrades required to achieve full electrification). This subsidy program could be used in conjunction with a low-income housing tax credit (LIHTC) financing structure, or without.



PROGRAM DESIGN STEPS

Implement Training and Technical Support

The push to meet climate goals puts an already strained affordable housing community under even more pressure.

In addition, owners of affordable housing commonly have limited capacity and operate in a challenging finance space, which requires expertise to pull in resources effectively. It also poses financial risks when implementing incentive-based rebates.

Despite this, the affordable housing sector is innovative and has led the way in many green building and renewable energy efforts.

Many affordable housing developers acknowledge the need to meet the state's climate goal and strive to do so without sacrificing affordability.

Recommended Pathway



Enhance collaboration and systems change efforts through multisectoral training, workshops, outreach on program design efforts. This will help increase public awareness and prepare California's leaders across housing, energy, infrastructure, finance, and policy sectors to deepen collaboration and to strengthen a shared language, understanding, and vision or solutions together.



Provide technical support, capacity, and strategic leadership to help state and local agencies in California to bring new energy dollars into existing affordable housing programs to fill gaps. Effective policymaking and systems change requires robust multi-sector collaboration among partners and a shared understanding and commitment to common goals. Carefully curated technical services and facilitated learning spaces are needed to streamline, disseminate best practices, and develop compelling solutions to produce a scalable, sustainable, and equitable housing ecosystem at the state, regional, and local levels.



Provide technical assistance to developers, including their property and asset managers.

- The IRA's new tax credits and incentives will require owners to get training and assistance to apply for federal funds to technically integrate the opportunities into their deals and portfolios.
- Technical Assistance to Developers and their property and asset management partners to teach them how to meet requirements w/out raising rents
- Training for asset and property managers on how to maintain clean energy technology in their properties



Part 3

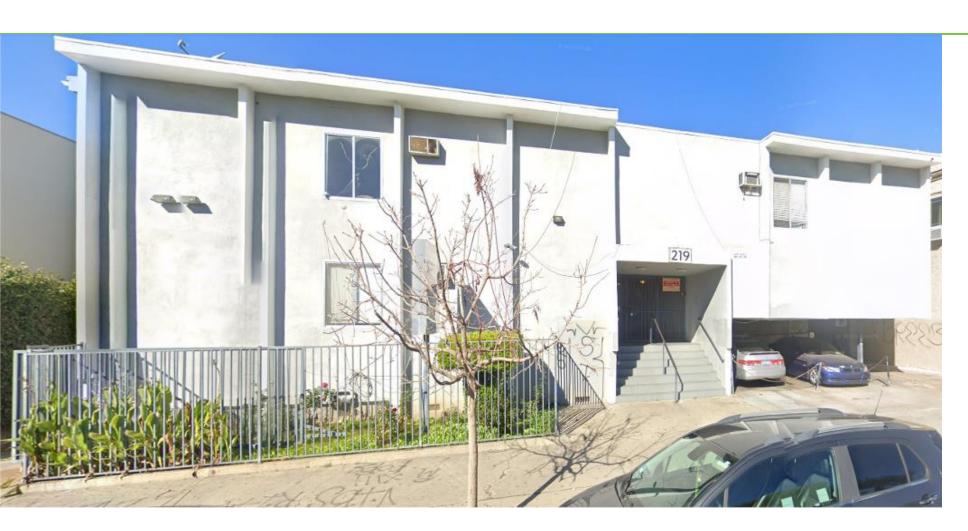
Affordable Housing Typology Analysis for Equitable Decarbonization

Unsubsidized Affordable Housing

Existing Regulated Affordable Housing

New Construction Affordable Housing

Unsubsidized Affordable Housing



Scale

This affordable housing type comprises the majority of affordable rental housing units in California, with an estimated 864,000 units as of 2022.

Definition

Unsubsidized affordable housing – housing units with rents that are relatively low compared to other market rate rents for the applicable region, commonly referred to as "Naturally Occurring" Affordable Housing (NOAH). These properties are typically Class B and C rental buildings or complexes, often constructed between 1940 and 1990, that can range from small (<20 units) to large (>100 hundred units), each with unique financial and physical needs. They are typically not part of any government-subsidized housing program and therefore do not have enforceable affordability covenants, excepting for local rent control laws where applicable. In addition, some public funding programs may include short-term affordability requirements.

Most Common Owner Type

Private owners and investors, including the "mom and pop" variety.



Decarbonizing Unsubsidized Affordable Housing

CHALLENGES UNIQUE TO THIS TYPOLOGY	WE MUST SOLVE FOR	INTERVENTIONS RECOMMENDED TO RESOLVE THIS CHALLENGE	DESIRED OUTCOMES	PARTNERSHIPS NECESSARY TO ACHIEVE THESE OUTCOMES
RENT INCREASES + TENANT DISPLACEMENT Decarb upgrades add cost which can lead to permanently displacing tenants and loss of affordability	 Without placement of affordability protections, owners may pass on the cost of upgrades to tenants, and increase rents, which hastens displacement + harm Owners are typically resistant to voluntarily accepting affordability covenants in exchange for decarb capital There is wide variation of protections for tenants and rent increases, from local or state rental control, and some areas are without any protection. Tenants in each of these settings require different protections with real enforcement mechanisms. 	 Establish a multisector statewide commission to develop strategies to scale decarbonization that targets public funds, tenant protections, and new affordability covenants. Explore incentives to prevent rent increases, such as fixed utility rates, tax abatement, and lower mortgage rates. Create decarbonization programs that focus on landlord concerns. Focus on income verification, not site conditions. 	Near-term: Pilot programs to market test incentives that place new affordability covenants or tenant protections and outcomes for tenants and owners. Long-term: Decarbonization funding programs that effectively incentivize owners and maintain affordability.	Collaboration between foundations, state and local agencies, people with lived experience, landlord and affordable housing associations, trusted community organizations, TA providers, and other institutions to support the statewide commission. Engagement with owners and residents in unsubsidized properties. Housing departments for tenant protection enforcements
PHYSICAL NEEDS Housing stock is older with site and other constraints	 Existing building systems and envelope: Need major capital upgrades to accommodate full electrification Many of these properties have experienced deferred maintenance for serious habitability issues like mold, pests, etc. CA State Tenant Protection Act allows for eviction for "substantial remodel" like the major capital improvements necessary for electrification. 	Comprehensive capital programs that provide both energy and capital upgrades: • Funding for both decarbonization retrofits and Major Capital Improvements (MCl's) • The state should ensure that MCls due to electrification retrofits do not substantiate cause for tenant eviction • Engineering and design technical assistance to determine plan for decarbonization	Statewide pipeline of unsubsidized affordable housing undergoing full decarbonization	Technical assistance providers and owners or buyers of unsubsidized affordable housing.
FINANCE STRUCTURE Varied owner types, size of properties, and access to existing programs (isn't scalable to meet housing stock need)	 Varied owner types result in owners of smaller properties unable to access existing programs Owners resisting accepting affordability covenants that many programs require. Restricted rent income prevents the ability to take on debt. Owners can't take on more debt. Public and private entities do not seek small and disaggregated properties 	 Market-tested products to preserve affordability through: Creation of below market subordinate loans Public subsidies with low or zero cost debt that can function as "gap" funding or forgivable, grant-like loans Remove capital gains taxes if property is sold to public agencies that then create affordability covenants Provide targeted technical assistance from trusted providers CDFIs and Housing Agencies to fund community providers to do outreach Explore a guarantee of state money for local match provided for affordable housing decarbonization programs 	financial restructuring, decarb retrofits, and preservation of	 Housing and energy agencies form partnerships to develop and deploy subsidy program(s) with low or zero cost debt Private sector investments administered by mission-aligned CDFIs Outreach provided through state and local government and housing agencies, trusted community-based organizations, established landlord and affordable housing associations, TA providers and housing networks, banks and CDFIs.
CAPACITY & AWARNESS Owner types vary and require deep technical assistance to integrate decarb retrofits into existing properties	Capacity challenges to implement decarbonization • At the development and operational levels • Ability to ensure maximum performance and efficiency	Increased public awareness • Targeted education, and outreach for owners and contractors Integration of free Technical Assistance • For owners/developers when accessing decarb funding programs • Covers both financial and ongoing operations of equipment	Implementation and operational proficiency by property owners and their partners, including property and asset management, and general contractors	Collaboration between technical assistance providers (including consultants, designers, and engineering professionals), trade associations, and funding program administrators



TYPOLOGY SPECIFIC RECOMMENDATIONS

Equitable Decarbonization of Unsubsidized Affordable Housing

Typology Specific Funding Pathways And Solutions

The IRA includes \$9 billion in consumer home energy rebate programs, focused on low-income consumers, for energy efficiency and electrification. This funding could be used to enhance the State's Weatherization Assistance Program (WAP) and Low-Income Home Energy Assistance Program (LIHEAP) Weatherization Assistance Program, and additional funding could be used to enable more extensive capital upgrades as part of this program.

For small unsubsidized multifamily, structure products as:

- Grant funds structured as debt
- Public subsidies with low or no-cost debt that can function as "gap" funding
- Below-market subordinate loans or equity investment products that can leverage owner's borrowing power

For large unsubsidized multifamily, structure products as:

Subordinate revolving debt pool that generates return on investment through realized operational savings and creates the potential for a sustainable loan pool by recycling funds.

Oversight And Governance Structures To Reach More Equitable Outcomes

<u>Establish an Oversight Committee</u> comprised of tenants, community organizations, owners, state agencies, TA providers, and financing partners

For small unsubsidized multifamily:

Lead Administrator to manage grants, soft loans, and technical assistance (TA)

- Select a well-established mission-aligned state housing agency with both:
 - Proven capacity to lend or provide grants and TA to developers and/or owners of unsubsidized properties of all sizes.
 - A well-established network of regional and community-based financing institutions.

For large unsubsidized multifamily:

Lead Administrator

Select a well-established mission-aligned state housing agency with:

- Proven capacity to manage soft loans
- Strong network of regional and community-based financing institutions and can also fill technical assistance roles
- Mission-aligned lenders to administer subordinate debt such as community development financial institutions (CDFIs)



Subsidized Affordable Housing [Existing Buildings]



Definition

Existing subsidized affordable housing refers to housing units that have legally enforceable restrictions on their rents which ensures they remain affordable to low-income households. Typically, these affordability restrictions are enforced via affordability covenants recorded against the property and which accompany a source of public financing used in the purchase or development of the units.

Scale

Currently in California there are approximately 527,500 regulated housing units. All affordable housing projects developed utilizing the low-income housing tax credit (LIHTC) are examples of regulated affordable housing.

Most Common Owner Type

For-profit and nonprofit entities of varying size, from small community-based organizations to institutional real estate investments firms. Public housing authorities.



Decarbonizing Existing Subsidized Affordable Housing

CHALLENGES UNIQUE TO THIS TYPOLOGY	WE MUST SOLVE FOR	INTERVENTIONS RECOMMENDED TO RESOLVE THIS CHALLENGE	DESIRED OUTCOMES	PARTNERSHIPS NECESSARY TO ACHIEVE THESE OUTCOMES
RESOURCE ALLOCATION Preservation funding and energy resources for existing affordable housing is extremely limited and is not currently prioritized.	Housing resources for affordable housing preservation are limited in CA, regardless of decarbonization goals. This includes: • Re-syndications of Low-Income Housing Tax Credit properties due to bond caps. • Limited gap financing, like public soft subsidy for preservation. Energy resources for existing properties are limited and do not cover capital upgrades.	funding used for existing multifamily buildings	 Initial focus on deep investments to model the suite of decarbonization investments that can deliver multiple benefits; over time this will allow for more effective scaling in the industry. Increases to the pipeline of existing regulated housing undergoing full decarbonization and preservation Financial interventions at the local levels to help simultaneously address decarb and preservation 	Use private sector resources to lower the cost of capital, offering lower interest rates for properties that decarbonize.
PHYSICAL NEEDS Housing stock is older with site and other constraints	Existing building systems and envelope: Need major capital upgrades to accommodate full electrification	 Prioritize comprehensive capital programs that provide funding for both decarbonization retrofits, associated major capital improvements (MCIs), and technical assistance. Update existing energy resources to include repairs and replacement upgrades. SOMAH incentive for solar to include roof repairs and replacement, etc. Engineering and design TA to assess site and building to determine plan for decarbonization. 	Statewide pipeline of existing regulated affordable housing undergoing full decarbonization with newly placed / renewed affordability covenants.	Deep relationships between Technical Assistance providers and owners or buyers of regulated affordable housing.
FINANCE STRUCTURE Regulated properties have complicated financial stacks, investor partnerships, and intricate regulations.	Existing regulated affordable properties usually have five or more funding sources that each require approval to accept new decarb dollars. Many financing programs for affordable housing have varying requirements for accepting additional debt for decarbonization upgrades: • Section 8 and LIHTC programs have different regulations that affect the ability to invest in decarb • State regulators do not want properties to assume more debt	 Offer below-market products that focus on major capital events like a refinance or re-syndication. Create grants, first position loans, below market subordinate loans or equity investment products that can act as bridge or mezzanine financing to fund decarbonization retrofits. Ensure compatible terms that can be used with existing regulated structures. Energy agencies/Utilities to design and implement rehab programs in collaboration with housing agencies for existing buildings and include capital upgrades. 	Pilot funding program of projects undergoing decarbonization retrofits between recapitalization cycles.	Private or public sector investment products administered by housing agencies and mission-aligned CDFIs • Partnerships can include Local Housing Finance Agencies, CCAs, and Regional Energy Networks (RENs) • Example: Equitable Building Decarbonization Program includes energy and housing agencies through CEC program
CAPACITY Owners require deep technical assistance to integrate decarb retrofits into existing properties.	Capacity challenges are at the development and operational levels of decarbonization implementation. Technical assistance must be freely available to ensure newly introduced features maximize performance and efficiency.	 Provide technical assistance that covers both financial and operational implementation. Ensure it is integrated into decarbonization funding programs for owners and developers. This will address capacity challenges to ensure newly introduced features maximize performance and efficiency. 	Implementation and operational proficiency of decarbonization retrofits by property owners and their partners (property and asset management).	Collaboration between administrators, contractors, and technical assistance providers, such as: consultants, designers, and engineering professionals.



TYPOLOGY SPECIFIC RECOMMENDATIONS

Equitable Decarbonization of Existing Subsidized Affordable Housing

Typology Specific Funding Pathways And Solutions

Reimagining how preservation activity is resourced, and how green building and decarbonization programs can be layered into preservation financing structures, will be key to achieving the state's housing sustainability goals.

To help achieve this, state energy agencies can grant funds to the housing agencies to fund decarbonization and preservation programs, creating new financing solutions.

Energy money can be utilized to fund decarbonization retrofits with housing finance structured as:

- Grants or forgivable loans
- Below market subordinate loans layered into housing stack
- Bridge financing for energy incentives
- Below market mezzanine debt on top of existing debt
- Ensure compatible terms that can be used with existing financing products like mortgage debt (subordinate participation loan alongside existing financing terms)
- Cover both decarbonization, Major Capital Improvements (MCI's), and critical replacement and repairs

Oversight And Governance Structures To Reach More Equitable Outcomes

Oversight:

Governor's office, Treasury, and State Public Service Commission

Lead Administrator

State housing agency that is well established in managing syndications and preservations of affordable housing.

Capital to flow through housing agency and/or missionaligned Community Development Finance Institutions with local relationships.

Community partners to assist with outreach to ensure funds flow into the communities in the right ways.



Subsidized Affordable Housing [New Construction]



Definition

New construction subsidized affordable housing refers to residential properties built from the ground up, or through adaptive reuse of an existing non-residential property, for the purpose of providing affordable rental housing units for low-income households. Most new construction affordable housing is financed using low-income housing tax credits (LIHTC) and a combination of public subsidies, grants, and conventional debt. Affordability is regulated through placement of affordability covenants recorded against the property which ensure rents are maintained at levels affordable to low-income households.

Scale

Between 2020-22 California produced an average of 22,869 new affordable units per year, 96,418 units below the state's annual goal.

Most Common Owner Type

For-profit and nonprofit entities of varying size, from small community-based organizations to large real estate developers.



Decarbonizing New Construction Affordable Housing

CHALLENGES UNIQUE TO THIS TYPOLOGY	WE MUST SOLVE FOR	INTERVENTIONS RECOMMENDED TO RESOLVE THIS CHALLENGE	DESIRED OUTCOMES	PARTNERSHIPS NECESSARY TO ACHIEVE THESE OUTCOMES
RESOURCE ALLOCATION Current housing programs don't receive or provide enough support to fund the full cost of decarbonization.	regulates sustainability) effectively incentivizes developers to construct all-electric buildings, though many developers don't choose to take the incentives because: Projects are already hitting basis ceilings due to the high cost of construction, or They don't want to over-commit to exceeding Title 24 because it adds additional costs. Rural and disaster-vulnerable prone areas of the state face common funding gaps:	 Enhance existing funding programs to further encourage all-electric construction. Require projects to commit to all-electric construction as a threshold for qualifying for HCD SuperNOFA (as the AHSC program does). Provide additional financial incentives for projects committing to all-electric construction. Use climate or energy resources to add a "subsidy boost" for fully-electric projects Add an increment to LIHTC for decarbonized projects, like the high-cost area boost Increase the amount of funds to cover soft costs and to provide meaningful amounts per unit to elicit behavior change (such as \$7,500-\$25,000+ per unit) Authorize programs for the long term to ensure predictability 	All new construction projects utilizing state funding will feature all electric construction Uptake of energy scopes and decarbonization due to meaningful benefits to both developers and tenants through ample resource allocations to soft costs, technical assistance, and robust funds per unit.	 Housing, energy, climate agencies State energy agencies to partner with a state housing finance agency that is well established in managing the largest programs for affordable housing new construction. A portion of energy funds can blend and layer into existing affordable housing programs. Provide energy/climate resources as a financial incentive or "subsidy boost" to support all-electric components in new construction. Capital flows through housing agencies, CDFIs to underwrite, and community partners to do the outreach. This helps ensure resources flow into the communities in the right way vs. only to more resourced developers.
FINANCE STRUCTURE There are too many small energy programs that are not reasonable for meaningful developer uptake.	Existing programs are small, hard to access, and do not yield a worthy return on investment for developers to access them. Programs require specialized expertise and staff time, often for limited resources and returns. This results in relatively low uptake.	 Housing, climate and energy agencies in collaboration should examine ways of improving uptake of existing clean energy programs in low-income and historically disinvested communities by consolidating funding programs and providing comprehensive technical assistance. Leveraging the power of Community Choice Aggregators (CCAs) and Regional Energy Networks (RENs) to holistically address the energy needs within local jurisdictions. This could result in meaningful, concentrated clean energy investment in communities that have historically been ignored 	impacting LIDACs	 Housing, climate and energy agencies, coordinating with local housing agencies to coordinate state and local programs. Energy, housing, and climate agencies collaborate with philanthropy to establish these partnership models. Energy Stakeholders and Housing Agencies and Community Development Lenders
CAPACITY All-electric high- performance buildings require additional time and knowledge.	Increased soft costs (time and education) for operators and tenants to learn how to use the new equipment and manage the associated risks with high performance buildings.	 Integration of free TA for developers when accessing decarb funding programs TA to cover both financial and operational implementation 	Implementation and operational proficiency of decarb features by property owners and their partners, including property and asset management	Collaboration between developers/owners, TA providers (including consultants, designers and engineering professionals) and funding program administrators



TYPOLOGY SPECIFIC RECOMMENDATIONS

Equitable Decarbonization of Subsidized Affordable Housing (New Construction)

Typology Specific Funding Pathways And Solutions

A portion of energy funds can blend and layer into existing affordable housing programs as a soft subsidy loan, administered as a construction source at the front end of a deal through the housing agency.

This provides energy/climate resources as a financial incentive or "subsidy boost" to support all-electric components in new construction and allows state housing funds to go further towards affordable housing.

Ensure funding awards are large enough to change behavior and are applicable to the real cost, such as \$7,500/unit to \$25,000+/unit.

Allow flexibility in programs, such as including soft costs and capital upgrades as eligible expenses.

Leverage corporate sector and/or philanthropic funding for an innovative funding tool that helps developers reach "stretch goals" for sustainability.

Oversight And Governance Structures To Reach More Equitable Outcomes

Oversight:

State energy, housing, and climate agencies.

Lead Administrator

State housing agency that is well established in managing the largest programs for affordable housing new construction.



Part 4

Conclusion:

Provide education, technical support, capacity, and strategic leadership to help facilitate systems changes



Conclusion

The State of California has a highly sophisticated set of tools to finance energy efficiency and renewable energy in disadvantaged communities. The State's energy savings and climate protection goals are incredibly ambitious and, as a result, it is imperative to work faster, smarter, and much harder to reach these goals toward an equitable energy transition. Our research has elevated some key challenges, opportunities, and recommendations for the field.

In order to address the challenges and issues identified, we suggest providing education, financial resources, technical support, capacity, and strategic leadership to help facilitate systems changes capable of supporting more investment in LIDACs through affordable housing. Technical assistance and capacity building will need to be implemented for state and local agencies, housing owners, advocates, and other stakeholders to implement the above recommendations. In particular, we recommend further activities and investments in the following areas:

- 1. <u>Direct and streamline climate finance resources into affordable housing</u> to boost the impact of new federal funds to help California reach LIDAC and climate targets.
- 2. <u>Prepare California's leaders across housing, energy, infrastructure, and advocacy sectors</u> to advance solutions and change systems through sharing knowledge, best practices, and collaboration.
- 3. <u>Provide training, technical support, capacity, and strategic leadership</u> to help state and local agencies in California bring new energy dollars into existing affordable housing programs to fill gaps. More specifically, helping to apply for funding and to develop a priority project pipeline, with a focus on ensuring sustainability funds flow into LIDACs through subsidized and unsubsidized affordable multifamily properties with different owner types.
- 4. <u>Support nonprofit affordable housing developers</u> and their asset and property management partners with technical assistance and capacity building to evaluate their energy and solar financing strategies to maximize their ability to decarbonize their projects and portfolios.
- 5. <u>Develop a long-term plan with clear metrics and targets</u> to decarbonize California's affordable, multifamily residential real estate to meet the state's Climate GHG reduction goals.



Part 5

Appendix

<u>Federal Resources - Inflation Reduction Act</u>

National and California Funding Summary



Federal Resources — Inflation Reduction Act

RESOURCE TYPE	PROGRAM	AGENCY	AMOUNT	QUALIFYING RECIPIENTS	TYPE OF FINANCING	ELIGIBLE USES
REBATES	Home Efficiency Rebates (HOMES / HER)	– California Energy Commission	 \$291M \$174M (60%) to the CEC's Equitable Building Decarbonization Direct Install Program \$116M (40%) to a Pay for Performance Program designed to work with existing programs administered by CCAs and utilities 	Multifamily building owners and homeowners - Additional benefits for < 80% AMI - Projects must achieve certain thresholds of energy savings	Performance-based rebatees, up to \$8K/unit	ENERGY STAR appliances (heat pumps, range hoods, cooktops, refrigerators)
	Home Electrification and Appliance Rebates (HEEHRA / HEAR)		 \$290M \$96M (33%) integrated into TECH Clean CA program by summer 2024 \$194M (66%) to HEEHRA Phase II program, seeking public opinion this summer 	Low- and moderate-income homeowners, owners/operators of affordable multifamily housing	Point-of-sale rebate - Electrification upgrades up to \$14K per households with additional benefits for lower AMIs	 Weatherization measures (insulation, air sealing) Electrification measures (electrical panel, wiring upgrades)
TAX INCENTIVES	Solar Investment Tax Credit (48 ITC)	Federal IRS	N/A - tax credit	Businesses, nonprofits, local, tribal governments with projects with new solar systems (new and existing properties) Bonus credits for projects located in a low-income community, in a low-income residential building, or is a low-income economic benefit project	Tax credit	- Solar PV panels, energy storage, installation costs
	45L Energy Efficient Homes Credit		\$500 - 1,000 per unit for buildings that meet specific energy standards Bonus credits for projects that meet prevailing wage requirements	Developers that construct new energy-efficient homes	Tax credit •	 Energy efficiency measures, including heating and cooling equipment, building envelope, lighting
	179D Energy Efficient Commercial Deduction		Deduction increases with higher levels of building efficiency Bonus deductions for projects that meet prevailing wages and apprenticeship hiring standards	Owners of new and improved energy saving commercial buildings – can be used by mid- and high-rise multifamily buildings that reduce energy use by at least 25%	Tax deduction	
GREENHOUSE GAS REDUCTION FUND (GGRF)	Solar for All (S4A)	California IBank, Strategic Growth Council, Labor and Workforce Development Agency, CA Energy Commission, Public Utilities Commission	\$249.8M Program currently in development	Low-income and disadvantaged communities	Grants, technical assistance	 Expand existing low-income residential solar, delivering utility bill savings to households that need it the most New programs, expand current efforts, address funding gaps



Federal Resources — Inflation Reduction Act [cont'd]

Greenhouse Gas Reduction Fund (GGRF): National Clean Investment Fund (NCIF) - \$14 Billion

- Intended to deliver primary lending capital at scale, catalyzing tens of thousands of clean technology projects.
- \$14 billion, more than \$7.5 billion expended to low-income and disadvantaged communities
- Financial products direct investments in products or low-interest loans
- Eligible projects: Any project, activity, or technology that reduces or avoids greenhouse gas emissions and other forms of air pollution or assists communities in efforts to reduce emissions

RESOURCE TYPE	RECIPIENT	AMOUNT	RECIPIENT COALITION ORGANIZATIONS	TYPE OF FINANCING	ELIGIBLE USES
NATIONAL CLEAN INVESTMENT FUND (NCIF)	Climate United	\$6.97B	 Calvert Impact Community Preservation Corporation Self-Help Credit Union 	 MF direct lending and subordinate loans (second mortgages, significantly below market rates) Low interest EV and residential solar loans Green mortgages 	 Integrate building decarbonization into first mortgage origination process Deployment through existing mortgage lenders: HFAs, CDFIs, mortgage banks, commercial lenders At least 60% investments in LIDACs
	Coalition for Green Capital	\$5B	Green banks, clean energy financing organizations, CDFIs, including CA's Ibank	 IBank's three preliminary products Climate Incentives Bridge Climate Loan Guarantee Climate Loan Participation 	 Public-private investing Flexible, low-cost capital At least 50% investments in LMI and disadvantaged communities
	Power Forward	\$2B	EnterpriseRewiring AmericaHabitat for HumanityLISCUnited Way	 Preliminarily: low-rate, long-term loans Primarily subordinate, including interest-only and cash flow contingent Forgivable component 	 Incentivize qualified multifamily residential projects in LIDACs through customizable terms based on the depth of affordability and decarbonization Financing representing 20 – 30% TDC; lower leverage of TDC (4.2x); lower private capital mobilization (2.2x) Customization based on impact: depth of affordability, extent of decarbonization, smaller unit size, location



Federal Resources — Inflation Reduction Act [cont'd]

Greenhouse Gas Reduction Fund (GGRF): Clean Communities Investment Accelerator (CCIA) - \$6 Billion

- Rapidly build the clean financing capacity and capitalize specific networks of public, quasi-public and non-profit community lenders.
- \$6 billion, 100% expended to low income and disadvantaged communities (LIDAC)
- Grant activities:
 - 1. Capitalization Funding Subawards for community lenders up to \$10 million
 - 2. Technical Assistance Subawards for community lenders up to \$1 million
 - 3. Technical Assistance Services to community lenders

RESOURCE TYPE	RECIPIENT	AMOUNT	ORGANIZATION SUMMARY	ELIGIBILITY	TARGETED PROJECTS
CLEAN COMMUNITIES INVESTMENT ACCELERATOR (CCIA)	Opportunity Finance Network (OFN)	\$2.29B	Leading investment intermediary and national network of mission-driven community lenders, including certified CDFIs. OFN's more than 425 members provide affordable, responsible financial products and services in low-income rural, urban, and Native communities nationwide.	Subaward funding will be available for active OFN members who also meet the EPA's definition of a mission-driven community lender.	Members that receive funding from OFN will build their own pipelines and finance projects meeting eligibility requirements established by the EPA in the categories of distributed generation and storage, net-zero buildings, and zero-emissions transportation in or benefitting low-income and disadvantaged communities.
	Inclusiv	\$1.87B	Certified CDFI intermediary that works with community development credit unions (CDCUs) and cooperativas to serve over 18 million low-income urban, rural, and reservation-based communities around the country.	CDCUs and cooperativas (regulated depository cooperative financial institutions) will be screened for eligibility by four criteria: non-profit community lenders, good financial standing, mission aligned with lending to LIDACs, and demonstrated interest in loan products that reduce emissions.	Will provide technical assistance and equity grants, subordinated debt, and more for credit unions and cooperativas to distribute to consumers, single-families, and small businesses to facilitate clean energy projects.
	Justice Climate Fund	\$2B	Nonprofit deploying capital through CDFIs, credit unions, Minority Depository Institutions (MDIs), and community development banks. JCF's 18-member coalition includes technical assistance experts and trade coordinators representing hundreds of community lenders nationwide	Eligible community lenders will be able to apply to JCF's program in "waves", ensuring an equitable distribution of funding throughout the program.	Loans through CDFIs, credit unions, minority depository institutions, and community development banks to fund green projects in LIDACs prioritizing healthy air, green transportation, clean water, and well-paying jobs



Federal Resources — Inflation Reduction Act [cont'd]

Greenhouse Gas Reduction Fund (GGRF): Clean Communities Investment Accelerator (CCIA) - \$6B (cont'd)

- Rapidly build the clean financing capacity and capitalize specific networks of public, quasi-public and non-profit community lenders.
- \$6B, 100% expended to low income and disadvantaged communities (LIDACs)
- Grant activities:
 - 1. Capitalization Funding Subawards for community lenders up to \$10 million
 - 2. Technical Assistance Subawards for community lenders up to \$1 million
 - 3. Technical Assistance Services to community lenders

RESOURCE TYPE	RECIPIENT AMOUNT ORGANIZATION SUMMARY		ELIGIBILITY	TARGETED PROJECTS	
CLEAN COMMUNITIES INVESTMENT ACCELERATOR (CCIA)	Appalachian Community Capital	\$500M	CDFI that provides underserved communities in the Appalachian region with new capital for small business loans. ACC established the Green Bank for Rural America to provide investment and technical assistance to low-income communities to push green energy adoption.	Prioritizes 582 counties in Appalachia, energy communities, underserved rural, and Native communities, accounting for nearly 30% of all US persistent poverty counties.	Loans for green energy generation and storage, housing, small businesses, commercial buildings, community facilities, charging infrastructure, and more.
	Native CDFI Network	\$400M	Coalition of CDFIs focusing on creating solutions to the financial barriers within Native communities, predominantly surrounding the dearth of financial institutions and affordable financial products.	 Community Lender Network of 63 lenders (58 of which are native CDFIs) across Native lands. Applications will be assigned to one of three tiers based on the size of their eligible project pipeline, the quality of their financing plan, and the amount of technical assistance needed. The higher applicants score the more quickly their allocation will be deployed. 	Loans for renewable energy, energy-efficient upgrades, and sustainability projects actively involving communities, Tribal leaders and businesses.





Decarbonizing California's Affordable Housing

A Multisector Roadmap

for Resourcing Equitable Decarbonization in Affordable Housing

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