RMI Response to NASEO Request for Information (RFI) – Implementation Options for HOMES & HEEHR Programs

Note: No proprietary or confidential information is included in your response and it is suitable for public dissemination by NASEO

Category 1: Comprehensive Program Design (maximum of five pages)

Company Characteristics

1. Name, contact information, company, or organization that you represent.

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Alisa Petersen, RMI, 952-220-1709, Apetersen@rmi.org

2. An overview of your approach to equity, diversity, inclusion, and accessibility (DEIA).

The Home Rebate Programs were designed to support decarbonization in low-income households. They are unique in the level of incentives they provide to these households, but need to be designed in a way that allows affordable housing to access them with ease. We have experience working with affordable housing developers and owners and focused our recommendation and design around avoiding pitfalls other programs have fallen into that make it difficult for them to access the funds.

3. A short description that your company is contracted or has been contracted to implement for planning, administering, and/or field delivery of federal or state programs.

RMI developed memos that include guidance on applying Home Electrification Rebate Program and Home Efficiency Rebate Program, program implementation recommendations that ensure efficient, effective and equitable implementation, timelines and deadlines to access funds, and pitfalls to avoid. RMI is also in the process of developing a template DOE application for the HOMES program. The hope is that states can use the template as a starting point and tweak it as they see fit. This template will be updated when DOE releases guidance, so it should be available within a month of guidance being released. Please reach out to us to see a draft of discussion before it's official release. RMI is also developing stacking tools that show home HOMES/HEEHR stacks with other federal, state, local, and utility incentives. We are in the process of developing this resource for four states and may be able to develop a similar resource for additional states.

Program Goals

4. How would you describe the goals of this program design? What kind of market transformation are you looking to achieve?

The goals of our program design are to allow the most energy burdened households to rapidly upgrade their properties with minimal administrative burden and upfront cost. This will lower utility bills, result in better indoor air quality (due to beneficial electrification) and reduce GHG emissions.

5. Does your program address a specific building type? If yes, which?

While the program should specifically focus on disadvantaged and J40 communities, RMI will focus on rent-restricted and regulated multifamily affordable housing (MFAH) for this RFI.

6. Does your program target a particular income level? If yes, which?

While the rebate provides definition on income levels, 100% of the funds should go to properties where residents earn below 80% AMI and additional carve outs should be made based on whether properties serve extremely low-income and very low-income.

7. Does your program design address HOMES, HEEHR, or both?

We are focused more on HOMES program design because it is more complex, but almost all our affordable housing recommendations also apply to HEEHR.

8. If your program design addresses HOMES, are energy savings measured, modeled, or both?

Both. The market can innovate best when it has flexibility, so it is important to include both options.

9. Does your program design promote any efficiency or electrification technology in particular? How will you determine which technologies are eligible for rebates?

Our program design promotes beneficial electrification projects and encourages removal of incentives for new fossil fuel appliances. For HEEHR, we would want all the technologies outlines in the legislative text to be eligible for rebate at their defined incentive levels. For HOMES, we would encourage some type of minimum equipment performance standards to ensure technology installed are appropriate and efficient (ideally mirroring the performance standards of HEEHR). To maximize impact on the supply chain, these standards should be standardized among existing state and local incentive programs and consistent across climatic regions with other states.

Market Conditions

10. What market conditions are necessary for your program design to be successful? What relationships? If these conditions are not available, how would a state create them?

Contractors will need to be familiar with the HOMES/HEEHR programs and other federal, local, utility incentive programs so they understand how best to use and stack them. Contractors will also need to understand the additional complexities that result when working with rent-restricted and regulated multifamily affordable housing so they can best serve those households. The state can create these market conditions by training their contractors, developing stacking tools (RMI can support here), and having a list of certified contractors.

11. How would building permits and inspections impact the program?

We recommend SEOs work with utilities, the Public Utilities Commission, local governments, and other relevant entities to *expedite and streamline permits* and inspections for multifamily affordable housing (MFAH) and housing in disadvantaged communities (DACs). The urgency of these critical resources reaching lower-income residents, the lack of upfront capital to make such upgrades, and the complex and time-dependent financing structures that affordable housing owners face necessitate that the permitting process is straightforward. Since delays in inspections and permitting will impact when the final rebate amount is released (for HOMES), it needs to be expedited and streamlined to ensure that small and marginalized contractors, affordable housing, and low-income homeowners can take advantage of these rebates. Since some technologies could be new, SEOs should also work with utilities and relevant agencies to *train building inspectors* so there are no knowledge gaps and rebate payments can be processed swiftly.

Implementation Proposal

12. Describe your vision for implementation in as much detail as possible. Include
    a. Description of the program concept. Who pays whom, when, for doing what?

Program Concept: An energy efficiency and electrification retrofit program that primarily prioritizes disadvantaged, J40, and low-income MF communities. We will focus our response solely on rent-restricted and regulated MF AH, given RMI's extensive work in this sector. At a high-level the program will:

1. **Create Carve-Outs:** Historically, programs have specifically targeted single-family homeowners. In the absence of carve-outs or program focus, multifamily housing, and DACs are left behind on investments targeting energy efficiency, weatherization and holistic retrofits that are often much needed in these communities to help with utility burdens. Most low-income residents are also renters who lack decision-making power and cannot afford to make these retrofits on their own. Similarly, multifamily affordable housing owners often lack the capital to make these upgrades. Low-income multifamily housing needs to be prioritized within the program and will help reach the intent of the legislature in helping reduce energy burden while

also improving comfort and indoor air quality for residents living in MFAH. In California, the Low-Income Weatherization Program that targets multifamily housing in disadvantaged communities had a waitlist of over 18,000 households as of 2021, even with continuous investment from the state.

2. **Provide comprehensive Technical Assistance (TA):** MFAH providers are often cash-strapped and lack the capacity to navigate the myriad of funding programs that come with varying requirements. SEO through its program implementers should provide comprehensive technical assistance that starts at the pre-application phase and is offered through the incentive payments and final project closeout. In the instance where an MFAH uses the measured savings approach, this TA should extend through the closeout of the final rebate payment, typically when the final inspection occurs after a year of the complete installation.
3. **Prioritize and Streamline Eligibility Requirements for 80% AMI and Target DACs:** While the legislative text allows HEEHR to be eligible for households up to 150% AMI and HOMES is open to any household, funds should prioritize properties where residents earn below 80% AMI and additional carve outs should be made based on whether properties serve extremely low-income and very low-income. Multifamily properties have 5 + units at the property level.
   For the purposes of the income requirements, affordable income limits must be consistent with the requirements of the affordable multifamily financing source or financial assistance for the project. This provision accommodates the income limits commonly utilized for affordable housing financing and assistance programs, including but not limited to those financed through Low Income Housing Tax Credit (LIHTC) and/ or administered by the FHFA, HUD, USDA, and local and state government and tribal housing authorities. Proof of deed from one of the sources listed above should serve as proof of eligibility to qualify the whole property as 80% below AMI. For unoccupied homes with a commitment to be affordable, SEOs can offer flexibility and use alternative funding commitment letters from agencies instead of a deed.
4. **Ensure Tenant Protection:** To ensure tenant protection, following a significant upgrade using federal dollars, HOMES should require that MFAH providers sign an affordability covenant that places limitations on evictions following such upgrades. Affordability covenants are legally binding documents that protect residents from unlawful evictions and rent increases following improvements to their units. Affordability covenants often put a 5 to 10-year restriction on eviction or rent increases because of the upgrade funded by a certain program. MFAH providers can alternatively show existing deed that have 5 to 10-years left to expire. To ensure compliance, SEOs can require that rebate beneficiaries sign an affordability covenant with the city/ county where the MFAH is located. Given tenant protection ordinances are hyper-local, this will enable the local authority to have more visibility and accountability. SEOs can conduct an annual audit and can impose claw-back funding requirements if the agreement is violated.
5. **Prioritize Weatherization and Electrification:** HOMES should be used to weatherize (insulation, air sealing, etc.) MFAH properties. Since HEEHR provides incentives for beneficial electrification, hopefully the two programs can stack together for a cost-effective approach.
6. **Leverage other funds**: As many of the MFAH is older building stock with existing health hazards like pests, asbestos, mold and lead, SEO should ensure that programs are leveraged to address a wide suite of issues. While there are limitations to the HEEHR program and its eligible measures and the HOMES program focused on measured that reduce energy, implementers should ensure that funds are leveraged from different sources to help address health and safety issues.
7. **Create or Use Approved Contractor Lists**: Approved contractor lists are used to ensure that there is a trusted list of trained and known contractors that owners can tap into for bids.

Contractors that have acted in bad faith are removed from the approved contractor list, protecting affordable housing providers and other lower-income homeowners and residents. SEOs should outreach to Minority and Women-owned Business Enterprises (MWBE) especially from DACs to create and maintain a diverse pool of contractors.

8. **Provide flexibility and phase payments:** Most MFAHs are cash-strapped with limited operating expenses and upfront capital to make necessary upgrades within the property. Existing MFAH financing structures are also complex and have long construction and rehabilitation lead to finish timeline (predevelopment to construction can take 2-3 years). This makes it challenging to align energy rebates with financing timelines. Hence, HOMES should be flexible on timing and avoid placing time limits on incentive awards and/or require project completion within a prescribed amount of time that limit opportunities to leverage rebates.

   HOMES should be used for whole building upgrades and energy efficiency measures which include common areas and in-unit measures. Many MFAH have central systems including hot water boilers and some of the common area spaces also serve as key congregating spaces during emergencies. These appliances and areas need to be upgraded to ensure the buildings are holistically upgraded and avoid a piecemeal approach. If the whole building reduces energy use by more than 20% for modeled approach or 15% for measured approach, they should receive the incentive that scales with the number of units in the building.

   HOMES payment should be made in multiple installments and should be phased into two or three payments. The first payment should be paid upfront before the work is started and a final payment should be made after the final inspection, in case of the model approach. In case of measured approach, SEO should determine the least amount of time needed to meet the measured requirements while rapidly getting incentives to aggregators or building owners. A second payment could be made when 50% of the project is complete. In California, LIWP staff inspect the property once construction is approximately 50% complete to verify that measures are being installed correctly and post-installation to confirm that the measures installed match the scope of work. Payments should be flexible and that includes:

   - Allowing owners to authorize contractors to receive payments on their behalf.
   - Defining contractors as aggregators or owners
   - Ensuring HOMES is structured as a grant or an interest-free loan, depending on the nature of the MFAH's financing structure. NHT's DOE's RFI response summarizes this nicely: "Energy rebates are treated under LIHTC as grants. Grants reduce the equity available to finance affordable housing. LIHTCs are allocated to developers and sold to investors. The equity raised is critical to financing affordable housing. Grants reduce the tax credits an affordable housing developer can qualify for, reducing equity. In addition, grants are treated as taxable income to investors, which means that investors pay correspondingly less for LIHTCs. Ultimately, the grants do not add net resources to the project. This challenge can be addressed by structuring the rebates as loans. Loans do not reduce the tax credits developers receive and are not taxable."

   b. A description of the participant journey through the awareness, application, participation, and close out process

While the participant journey will differ by state, where possible, housing and energy programs should be streamlined and fast tracked for MFAH with a single application for many different programs, one stop shop models, and aligning LIHTC financing timelines.

1. **Outreach and Implementation Partners:** Program outreach should be conducted by organizations that are intimately aware of the challenges faced by MFAH providers and have helped MFAH providers navigate energy efficiency and electrification rebate programs. Further, SEOs should hire community-based organizations (CBOs) that have experience in DACs and are trusted experts who can deliver relevant information to residents in the most accessible manner.
2. **Consult with state housing finance agencies, departments of housing, and public housing authorities and USDA, tribal housing agencies:** MFAH financing structures are often complex and have strict timelines. Most of these homes are updated every 15 to 20 years while refinancing through the LIHTC that complies with a set of regulations. Housing agencies like the ones listed have relationships with housing providers, and provide outreach, education, and opportunities to deploy funds in coordination with established financing programs. SEOs should also work with Public Housing Authorities within the state and HUD regional office to make changes to local utility allowance schedules.

    c. A description of the roles and responsibilities of all parties involved in the process.

    1. SEOs
        - Act as the program administrator
        - Hire an experienced program implementation team including experts in MFAH and local CBOs that can implement the program and provide TA
        - Coordinate with public utilities commission, utilities, cities, CBOs, housing agencies other relevant stakeholders including nonprofit advocates
        - Educate or support program implementers, cities, and utilities to educate relevant stakeholders including owners, tenants, property management staff, building inspectors and so on
        - Create approved contractor lists and conduct outreach to MWBE contractors
    2. Housing agencies like HFAs, PHAs, HUD support with outreach and program design for MFAH
    3. Utilities support with stack funding, offering outreach support, and streamlining and expediating inspections.
    4. Cities and Counties support with monitor rent increases, streamlining and expediting permits and inspections, and training building inspectors.
    5. Program Implementer Team (PIT)
        - Engage stakeholders to ensure equitable program design. Implement the program equitably, including conducting outreach in multiple languages and creating thoughtful partnerships with MFAH, DACs and tribal communities
        - Provide comprehensive TA and education
        - Conduct monitoring, inspections, and process payments.
    6. Owners can sign affordability covenants and communicate project timelines and delays
    7. Contractors should act in good faith, complete work, and stick to timelines. Also important for them to understand the incentive programs so they can explain them to customers and support them in getting their rebates.

    d. A statement of the benefits and comparative advantages of this program concept)

- Ensures program access to MFAH during a housing-utility affordability crisis, reducing energy burden for lower income residents
- Improves overall home quality and indoor air quality, while reducing GHG emissions.
- Increases compliance and monitoring for tenant protection
- Addresses split incentive issues

Category 2: Program Elements (maximum of four pages)

Company Characteristics

16. Name, contact information, company, or organization that you represent.

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17. An overview of your approach to equity, diversity, inclusion, and accessibility (DEIA).

The Home Rebate Programs were designed to support decarbonization in low-income households. They are unique in the level of incentives they provide to these households, but need to be designed in a way that allows affordable housing to access them with ease. We have experience working with affordable housing developers and owners and focused our recommendation and design around avoiding pitfalls other incentive programs have fallen into that make it difficult for affordable housing to access the funds.

18. As applicable, a short description and a link to programming that your company is contracted or has been contracted to implement for planning, administering, and/or field delivery of federal or state programs. Note which, if any, provides low- and moderate-income and affordable home energy upgrades, especially with and in disadvantaged communities.

RMI developed memos that include guidance on applying Home Electrification Rebate Program and Home Efficiency Rebate Program, program implementation recommendations that ensure efficient, effective and equitable implementation, timelines and deadlines to access funds, and pitfalls to avoid. RMI is also in the process of developing a template DOE application for the HOMES program. The hope is that states can use the template as a starting point and tweak as they see fit. This template will be updated when DOE releases guidance, so should be available within a month of guidance being released. Please reach out to see a draft before it's official release. RMI is also developing stacking tools that show home HOMES/HEEHR stacks with other federal, state, local, and utility incentives. We are in the process of developing this resource for four states and may be able to develop a similar resource for additional states.

Program Elements

19. Describe the program element that is important for State Energy Office consideration. Be as detailed as possible.

- General Guidance for both programs:
  - Encourage and inform incentive program stacking with Home Rebate Programs: Collaborate with other state agencies and stakeholders to develop clear guidance for Home Efficiency Rebates that clarifies which federal, state, utility, and local incentives can be combined and how. Create contractor and consumer-friendly one-stop-shop retrofit programs that: (a) enable consumers to understand the collective incentives available to them; and (b) simplify and consolidate reporting for the various state, utility, and local incentive programs. Further, consider mapping out which incentives are eligible for which sector of the population, and design implementation goals for the Home Efficiency Rebate program to serve households that are not properly served elsewhere.
  - Utilize state administrative capacity as efficiently as possible: States should inform DOE of the turnkey program resources and processes they want DOE to develop to minimize each state reinventing the wheel.
- Low Income specific recommendations for both programs:

    - Prioritize low-income households through metric setting: Set measurable goals to spend at an absolute minimum 40% (to mirror Justice40 goals) of program funding (direct incentives) on disadvantaged communities and low-income households, with a goal closer to 60%–80%.
    - Coordinate with state housing finance agencies: State energy offices should engage with their state housing finance agencies early in the process before finalizing their plan.
    - Design financing that works for Low Income Housing Tax Credit (LIHTC) properties: Provide a zero interest, long-term loan option in lieu of rebates for affordable housing that uses LIHTC. Under current policy, resources financed by federal rebates will either (1) count as taxable income to the partnership that owns the LIHTC property, substantially reducing the financial benefit of the rebate, or (2) reduce the eligible basis of the LIHTC property, decreasing the amount of LIHTC for which the property is eligible. Rebates in the form of zero-interest, long-term loans would not be treated as taxable income or reduced LIHTC eligible basis.
    - Minimize income documentation: Identify and create a list of existing low-income federal and state programs that have the same or more stringent income requirements than the Home Efficiency Rebate program to allow households that have already qualified for these existing programs to receive categorical eligibility. Additionally, to minimize administrative burden, DOE should provide guidance on self-certification and income verification. To minimize fraud concerns, explore pairing self-certification with spot audits and high fines for violations.
    - Require tenant protection: States should consider developing guidance particularly for landlords that pursue these upgrades to ensure it doesn't result in inappropriate rent increases or tenant displacement. SEOs should task state consumer protection agencies to lead this work.
- Home Efficiency Rebates Program specific:
    - Do not use Home Efficiency Rebates to subsidize new fossil fuel appliances: States can design the program so new fossil fuel appliances, including space and water heaters, clothes dryers, and gas ranges, do not count toward the home/building energy savings used to qualify for a rebate. Homes/buildings with fossil fuel appliances could still receive rebates if the energy savings are achieved in ways not including new fossil fuel appliances.
    - Design the program to include both a measured and modeled pathway: While states have ultimate authority to decide whether they want a measured-only or modeled-only pathway, states are encouraged to keep both pathways available, maximizing rebate access flexibility.
    - Include and regionally align minimum performance criteria: State programs should include minimum equipment performance standards to ensure technology installed is appropriate and efficient. To maximize impact on the supply chain, these standards should be standardized among existing state and local incentive programs and consistent across climatic regions with other states.
    - Re-evaluate low-income incentive levels: Allow low-income modeled projects to remove the per unit cost cap. Further engage with state housing finance agencies

  and low-income communities to determine if the 80% project cost cap is high enough to encourage retrofits for low-income projects.
  - Provide low-income rebates up front: For modeled savings, ensure rebates can be processed at time of installment. For measured savings, provide clear guidance to aggregators on best practices for incorporating future rebates into upfront cost savings for homeowners or building owners. This needs to be paired with strong consumer protections so that low-income households aren't stuck holding the bag if they are promised upfront discounts, but the aggregator doesn't follow through with it.
- Home Electrification Rebate Program specific recommendations:
  - Train contractors on electrification: The IRA includes $200 million of funding for a new State-Based Home Energy Efficiency Contractor Training Grant. State energy offices should apply for and implement these funds with the Home Electrification Rebate program in mind. States should seek to both build on existing networks and training programs and create new partnerships (such as with state housing finance agencies) to reach new audiences. Further, states should analyze what the electric appliance market looks like now (for both single-family and multifamily households), determine how much larger that market will get after this rebate program is implemented, and work with contractors, retailers, and distributors to make sure they are prepared.

Category 3: Indication of Vendor Interest (maximum of two pages)

Company Characteristics

22. Name, contact information, company, or organization that you represent.

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Company Summary

24. Summarize the services your company or organization could provide to a State Energy Office in the execution of these programs.

RMI is an environmental non-profit with over 600 techno-economic experts. Our buildings team alone includes over 60 experts, and we are very invested in how the HOMES and HEEHR programs are designed. After IRA passed, RMI developed memos that include guidance on applying Home Electrification Rebate Program and Home Efficiency Rebate Program, program implementation recommendations that ensure efficient, effective and equitable implementation, timelines and deadlines to access funds, and pitfalls to avoid. RMI is also in the process of developing a template DOE application for the HOMES program. The hope is that states can use the template as a starting point and tweak as they see fit. This template will be updated when DOE releases guidance, so should be available within a month of guidance being released**. Please reach out to see a draft before it's official release.** RMI is also developing stacking tools that show how HOMES/HEEHR stacks with other federal, state, local, and utility incentives. We are in the process of developing this resource for four states and may be able to develop a similar resource for additional states.