

## **EXCELLENCE in AFFORDABLE HOUSING**

***Encouraging energy efficiency in the development of multifamily rental housing***

*submitted by*

**The Pennsylvania Housing Finance Agency**

### **INSTITUTIONAL CHANGE**

The Pennsylvania Housing Finance Agency is the Commonwealth's leading provider of funding for affordable rental housing. In this capacity it administers two federally authorized programs, Section 42 Rental Housing Tax Credits and the HOME program. The Agency also operates its own PennHOMES program that provides subsidies to developments that receive other PHFA, private, local, state, or federal funds. Applications for all these programs must meet essentially the same selection criteria. Energy costs have become an integral part of those criteria.

As a program administrator, PHFA produces annual plans stipulating the criteria used to allocate Agency funds and tax credits. Point systems are used in these plans to help quantify the merits of each proposal, which are ranked in each of the state's six economic regions. The highest scoring developments in each of the regions generally receive funding. This highly competitive process results in PHFA receiving many more applications than it can fund.

Although submissions incorporating energy efficiency measures were long viewed in a positive light, it was not until 2003 that PHFA started to reward good intentions with actual scoring advantages. In that year, the Agency began granting five extra points to developments that provided higher levels of insulation than required by code. The response in the development community was immediate and dramatic; following this, four out of five proposals earned the energy efficiency points because the cost of the extra insulation was marginal, while the risk of not getting the extra points could spell the difference between selection and rejection.

Building on the popularity of this modest change, in the 2005 funding round PHFA began offering five additional points to developments featuring *ENERGY STAR*® appliances and mechanical equipment in every unit. This also has been met with general approval among affordable housing sponsors.

PHFA further broadened the selection criteria in 2006. While maintaining the five points awarded for *ENERGY STAR*® appliances and equipment, a new criterion was added granting another five points for developments that achieved a *HERS* rating of 86 or higher. The biggest change, however, was that the Agency decided to grant a total of 15 points to those proposals that followed PHFA's *Green Building* criteria, which includes the use of *ENERGY STAR*® appliances and equipment, the *HERS* 86 rating, plus an additional 24 energy efficiency and sustainability measures.

Because these revisions have also received a warm industry reception, the 2007 PHFA funding application has been modified to reflect the updated *HERS* standards and the Agency intends to continue reviewing its procedures to further reward energy efficiency in affordable rental housing.

### DEMONSTRATED SUCCESS

PHFA typically offers two multifamily funding rounds each year. Since the inception of its new application scoring criteria, industry response has been spectacular. In the past two years, our application process will have resulted in 4,017 affordable rental units being built or rehabilitated featuring *ENERGY STAR*® appliances and fixtures, *HERS 86* compliance, or meeting the Agency's *Green Building* standards.

By decreasing energy costs, both to the developer and residents, PHFA funding can then be made available for other worthwhile purposes such as housing services, job training, education, child care, and community enhancement, thereby multiplying the efficiency benefit.

The Agency ensures adherence to energy efficiency principals by reviewing construction paperwork prior to loan closing for *ENERGY STAR*®, *HERS 86*, and PHFA *Green Building* documentation. During the construction phase, PHFA technical personnel inspect units to guarantee proper installation of appliances, equipment, and materials. In addition, third-party certified home energy raters inspect those dwellings awarded points for *HERS 86* and Green Building standards. Only when the development meets all required standards is an Occupancy Permit issued, providing residents, most with extremely limited housing options, a degree of comfort they would never otherwise enjoy.

### HOUSING AFFORDABILITY

Under PHFA rules, rental units must be affordable to persons earning 60 percent or less of "area median income." A recent survey of residents revealed that nearly a third had incomes of less than 20 percent of area median income; about a fifth had incomes of between 20 to 30 percent of median, with the remainder having incomes of between 30 to 60 percent. The units financed by PHFA undergo annual inspections by HUD, the Agency itself, and, for tax credit units, certification by the Internal Revenue Service, to verify affordability.

### OTHER OPTIONAL INFORMATION

PHFA was recently recognized by the Energy Coordinating Agency of Philadelphia for its support of green building efforts in affordable housing. As this issue assumes ever-greater importance, especially in helping lower-income residents, the Agency will continue to emphasize *ENERGY STAR*®, *HERS* score, and *Green Building* criteria at its conferences, two of which will be held in 2007.

In addition to its work in rental housing, PHFA recently announced a new demonstration homeownership program, the "Excellence in Design Initiative." Dwellings financed under this new effort will be required to bear the *ENERGY STAR*® label. The program's application deadline is March 1, 2007.