

**Recommendations and Best Practices for Revising Multifamily Incentive Structure
May 2014**

Opportunities and Challenges for Multifamily Incentive Restructuring

In the fall of 2013, ACEEE completed a [report](#) identifying best practices for designing and implementing successful multifamily programs.¹ Best practices and leading examples emphasized ways to overcome common barriers to energy efficiency improvements in multifamily buildings. Common barriers include:

- Split incentives between building owners and tenants
- Limited financial capital for upfront costs
- Limited technical resources to assess energy consumption and cost-effectiveness of energy efficiency measures
- Time and complexity associated with identifying and accessing energy efficiency programs
- Capacity to undertake projects for deep energy savings

To inform redesigns of multifamily incentive and rebate structures, this memo draws from the report's best practices and case studies of programs that currently utilize these best practices. Particular attention is paid to common issues raised by the utility multifamily customers, including: complexity of multifamily offerings, need for a more diverse set of incentives/rebates and low-cost financing, options for on-bill repayment, and more targeted and/or performance-based incentives/rebates.

Effective Strategies and Best Practices for Multifamily Incentive and Rebate Program Structure:

Provide a “one-stop-shop” for program service that includes energy assessments and technical assistance

When building owners decide to implement energy efficiency upgrades to their properties, they are often confused as to what utility-customer-funded programs they are eligible for (commercial or residential, low-income or market-rate). Market confusion can result in a timely process of owners searching for eligible incentive programs, many times across utilities. By providing building owners with a single point of contact throughout program participation (either at the

¹ Johnson, Kate. 2013. *Apartment Hunters: Programs Searching for Energy Savings in Multifamily Buildings*. American Council for an Energy-Efficient Economy. Washington, DC. Available at: <http://www.aceee.org/research-report/e13n>

utility or a partner organization), “one-stop-shop” programs can simplify the steps involved to undergo energy efficiency measures.

A true one-stop-shop will serve as a point-of-contact for building owners interested in energy efficiency programs, organize a whole-building energy audit, streamline applicable incentives/rebates, and help building owners evaluate and identify contractors. This approach would help reduce market confusion and high transaction costs that buildings owners often face. Overall, by serving as a point-of-contact for multifamily building owners and managers, one-stop-shop models can improve program uptake by simplifying energy assessment for whole-buildings or individual units and by identifying the most cost-effective investments and options for low-cost financing, rebates, and incentives.

- The **Energy Savers Program**, delivered by Elevate Energy and Community Investment Corporation, is a comprehensive one-stop-shop for energy efficiency that provides an energy assessment to building owners that determines which measures can result in savings and increase their operating cash flow. They provide a free energy assessment, a follow-up consultation to identify cost-effective investments and access to low-cost financing, rebates, and incentives, and contractor oversight and monitoring to ensure that energy savings are achieved. On average, the building owners they work with save 30% on utility bills. This program is funded by Illinois utilities, federal, state and local funds, and foundations.
- The **Low-Income Energy Affordability Network (LEAN) & the Massachusetts Utilities’ Low-Income Multifamily Retrofit Program** provides eligible building owners with one year's use of an online benchmarking tool, two whole-building assessments (electrical audit and heating audit) to identify energy-saving opportunities, and installation of eligible no- or low-cost energy efficiency measures that meet the program's cost-effectiveness test. This program is funded by the Massachusetts gas and electric utilities and federal, state and local funds. It is administered by community organizations part of the Low-Income Energy Affordability Network (LEAN) that works to streamline services for both electric and gas energy efficiency statewide. LEAN’s focus on whole-building systems has been attributed to an average gas savings of more than 20%.
- **Energy Smart Colorado** is a one-stop-shop for information and support on how to improve energy efficiency throughout the state of Colorado. While this is a statewide effort funded by several utilities it serves as a useful model for providing comprehensive customer support and a [user-friendly online platform](#) to showcase targeted incentives/rebates and eligible parties. By serving as a platform to both customers and contractors, it facilitates home energy improvements through access to information, financing, and a skilled workforce. Energy Smart Colorado has opened three service centers throughout the state and as of 2012 began targeting multifamily buildings.

Incorporate on-bill repayment or low-cost financing

Multifamily building owners, especially low-income housing providers face increasing operational costs as their buildings continue to age. Maintenance and improvement priorities often compete with energy efficiency upgrades for limited financial capital and as a result, building owners often lack the upfront capital needed for energy efficient retrofits. Low-interest financing and/or on-bill repayment can limit or eliminate upfront costs allowing building owners to undertake more substantial energy efficiency projects and repay loans with a portion of the energy savings.

On-bill repayment options, as a form of unsecured financing via the utility, enable customers to access energy efficiency at no up-front cost, reap immediate benefits, and pay back the cost of the upgrade that is offset at least in part by monthly energy savings. Overall, low-interest financing and on-bill repayment can help owners spread out over time the cost of energy efficiency projects. Program administrators should note that on-bill repayment often requires policy intervention at the state level as PUCs regulate what types of surcharges are allowed on the utility bill in the interest of protecting consumers.

- **Public Service Electric & Gas (PSE&G)** Residential Multi-Family Program provides building owners with an investment grade energy audit at no cost to identify cost-effective, whole-building projects. All project costs are treated as upfront costs and customers receive a cash incentive to buy down their share of the costs. Customers payback the remaining amount within 15 years through a surcharge on their utility bills, interest free. The program is designed so that owners' payments are significantly offset by cost-savings resulting from the energy upgrades. On average, the customer will repay 30-35% of the installed equipment costs, interest free, through their PSE&G bill. PSE&G offers the program to all eligible residential multifamily housing.
- **MPOWER Oregon**, an energy efficiency program in Oregon, uses on-bill tariffs to target the multifamily affordable housing sector and build a platform for financing efficiency upgrades in tenant-metered buildings. This model allows affordable multifamily building owners to make efficiency upgrades without a lien on their property. This option is available to affordable multifamily housing owners wishing to access 20% energy savings upgrades at no upfront cost. The building owner is then able to pay back the cost of the upgrade (an unsecured loan) through the utility savings over a period of 10 to 15 years. In addition to offering the low-cost financing model, MPOWER also aggregates all streams of funding such as incentives, rebates, and grants that have the potential to buy down upfront costs.²

² MPOWER Oregon's program fund covers the entire upfront costs of energy and water efficiency improvements in multifamily properties. The program draws about 30 percent of its funding from utility incentives, 20 percent from U.S. Department of Housing and Urban Development (HUD) grants and 50 percent from CDFI debt. Source: Nochur, Aditya and Harvey Michaels. 2013. "Breaking Down Barriers: Exploring Program Models to Unlock Multifamily Energy Efficiency." MIT Energy Efficiency Strategy Project. Available at: http://web.mit.edu/energy-efficiency/docs/EESP_Nochur_BreakingBarriers.pdf

- Both **Elevate Energy** and **Sacramento Municipal Utility District (SMUD)** also offer financing or on-bill repayment options to enhance the ability of multifamily building owners to utilize their incentives and rebate offerings.

Integrate Direct Installation and Rebate Programs

Multifamily program administrators are often faced with the challenge of marketing and outreach to hard-to-reach building owners to achieve higher participation and at the same time, reduce or maintain administrative costs. Direct installation programs can help overcome this barrier by using the installation of no-cost measures as an entry point with building owners or managers. In this way, direct install serves a dual purpose by implementing no- or low-cost energy efficient measures as well as connecting with buildings to take advantage of incentives/rebates for more substantial energy saving upgrades.

In order to achieve additional energy saving measures in multifamily buildings, direct installation programs should complete an energy assessment when on-site and encourage multifamily building owners to take advantage of rebates for more extensive, whole-building improvements based on the assessment report. The dual approach also allows programs to address both common areas and residential units and therefore address the issue of split incentives. It is important however that program administrators understand the various decision-makers involved in the multifamily sector – those that can approve no-cost direct install (e.g., managers) and those that must approve capital investments (e.g., owners) and how to simultaneously reach out to both parties during initial entry points.

- **Puget Sound Energy** Multifamily Retrofit Program offers prescriptive rebates for equipment (e.g., windows, insulation, light fixtures, water heaters, furnaces, and heat pumps), some of which can be installed for free. A free onsite energy audit is required for rebate eligibility and after direct install, prequalified contractors follow-up with audit recommendations for more extensive energy efficiency measures. Often PSE will initially install measures that are attractive to owners (e.g., windows) to encourage projects with greater savings (e.g., insulation and air sealing). To date, PSE has reached 49% of the multifamily buildings in its territory of which 34% underwent additional energy efficiency projects, including windows with insulation, air sealing with insulation, and insulation with HVAC and the remainder were served with direct install measures.³
- **ComEd, Nicor Gas, North Shore Gas & Peoples Gas** Multifamily Comprehensive Energy Efficiency Program is offered by the four electric and gas utilities serving the Chicago area. The program offers energy efficiency upgrades and incentives to building managers and owners, beginning with a free energy assessment and a customized report of recommendations and eligible incentives and rebates. Following the audit, buildings owners and occupants are eligible for free energy products and installation (e.g., CFLs, showerheads, faucet aerators, programmable thermostats and pipe insulation). Lastly, they

³ A presentation of PSE's Comprehensive Multifamily Retrofit Program is available [here](#).

are offered discounted contractor-delivered services (e.g., lighting upgrades, exit signs, lighting controls, steam pipe insulation and boiler tune-ups) through standard and custom rebates.

While direct installation can be a potential gateway to property owners and further investments in energy efficiency, program administrators should continue to think about a program that combines prescriptive rebates with performance-based custom incentives or additional pathways for deeper energy savings retrofits. Not every building owner will be ready, financially or otherwise, to take on a substantial retrofit project, and thus, effective multifamily programs will reach and build relationships with building owners that are interested in faster, less extensive projects.

Multiple pathway programs, like direct install with audits and recommendations, can achieve more intensive retrofits by starting with no- to low-cost measures and then guiding building owners or managers to pursue additional energy savings measures through providing low-cost financing options and/or strategic timing to plan more extensive upgrades within their capital improvements pipeline or when equipment fails. This is particularly true for the hard-to-reach, cash strapped low-income multifamily properties.

- **Puget Sound Energy and Energy Trust of Oregon** both offer programs that begin with an energy assessment and then provide building owners with a suite of options and the flexibility to pursue projects that best meet their current needs and capabilities. Based on ACEEE's study of utility-led multifamily program best practices, these two programs have the highest cumulative participation rates of eligible customers, 49% and 16% respectively.⁴
- **SMUD, DC SEU, Efficiency Vermont, and ComEd, Nicor Gas, Peoples Gas, and North Shore Gas** all offer some mix of no-cost direct installation and rebates and incentives for individual measures. These offerings are intended to lead to more intensive, whole-building energy savings retrofits and equipment purchases.

Streamline Rebates and Incentivize In-Unit Measures to Overcome Split Incentives

Multifamily program models typically deem eligible residential buildings as those with five or more units. However, the multifamily sector is often considered by program administrators to fall within either their residential or commercial program portfolios, or both. While the dual identity of the multifamily housing sector allows for whole-building/common area upgrades and also in-unit measures, it poses challenges for program administrators and building owners. The classification guide implementation and eligibility and can also dictate eligible contractors for their commercial and residential portfolio which can further complicate program uptake.

⁴ Johnson, Kate. 2013. *Apartment Hunters: Programs Searching for Energy Savings in Multifamily Buildings*. American Council for an Energy-Efficient Economy. Washington, DC. Available at: <http://www.aceee.org/research-report/e13n>

A non-cohesive incentive structure can provide confusion and inefficiency for program staff and customers. Program administrators should combine both commercial and residential rebates into one easy process and provide incentives to building owners that are sufficient to encourage them to invest in high efficiency products in their shared tenant spaces in addition to in-unit measures. Such incentives would also directly address the challenge of split incentives. Overall, streamlined rebates and incentives for common area and in-unit energy savings upgrades allow for simplicity on the side of program administrators and building owners/managers.

- **Austin Energy's** PowerSaver Multifamily Energy Efficiency Rebate Program offers cash incentives to building owners for the installation of energy efficiency measures throughout the entire property. This is so that owners and tenants both benefit from the savings. To date, the program has reached a large share of the multifamily sector in Austin, including 90% of the largest existing multifamily housing stock that is at least 5 years old and has more than 200 rental units.
- **Energy Trust of Oregon's** Existing Multifamily Program has a standalone program for multifamily buildings. Owners are eligible for incentives regardless if the measure is in-unit or a common area. Free onsite audits help owners identify cost-effective upgrades and business development staff work directly with owners to guide them through the application process. They also offer an "upstream" incentive by working directly with major equipment distributors so that in the case of equipment failure the distributor applies the buy down incentive directly to the cost of the product for the building owner. This further simplifies participation and reduces transaction costs for property owners. In 2012, the upstream incentives helped ETO reach more than double the properties compared to 2011 when the streamlined incentives weren't in place.

Provide Escalating Incentives for Achieving Greater Savings Levels:

As described above, effective multifamily programs often begin with an energy audit and cost-effective recommendations that include information on applicable incentives and rebates. However, in order to encourage building owners to take on more extensive, and likely more expensive and time-consuming projects, program administrators can require a significant but achievable baseline level of energy savings (often around 15%) for eligibility and offer escalating incentives based on the projected and realized savings for a project.

- **New York State Energy Research & Development Authority (NYSERDA)'s** Multifamily Performance Program offers per-unit incentives and low-cost financing for new and existing buildings who commit and have the potential for a 15% reduction in electric and gas savings. Higher performance incentives are provided to building owners who achieve over 20% in savings. Incentive amount is based on actual not projected savings that are verified by contractors. Through this program NYSERDA has achieved 23% electric and gas savings, higher than the minimum requirement of 15%.

- **Sacramento Municipal Utility District (SMUD)**'s Multifamily Home Performance Program offers per-unit incentives and low-cost financing for existing buildings that can achieve a 10% reduction in electric savings. SMUD offers an escalating performance incentive of \$40 per unit for each 1% energy reduction. The 10% energy savings baseline provides a \$500 incentive, adding \$40 for each additional 1% and is capped at 50% energy savings. Through this program SMUD has achieved 29% electric savings, significantly greater than the minimum requirement of 10%. SMUD pays the incentive in full after the one-year post-retrofit audit.

Target some incentives for affordable multifamily properties

Incentives and rebates should target low-income multifamily buildings as they are faced with unique challenges. Low-income property owners typically operate with limited cash flow and face several restrictions that limit capacity for energy efficiency upgrades. Either through programs designed specifically for low-income housing or by providing extra services and incentives for low-income qualified buildings, program administrators should account for the unique challenges associated with low-income or affordable housing.

Program administrators should note that income-eligibility for qualified programs should be consistent with other state and federal housing assistance programs (based on area-based calculations) in order to simplify eligibility; however, program administrators should ensure definition of eligibility includes all affordable buildings and not restricted to traditional low-income programs.

- **NYSERDA and CenterPoint Energy** offer bonus or higher incentives that lower the upfront costs of energy savings upgrades for low-income buildings. CenterPoint Energy's Low-Income Multifamily Bonus Rebates program (Minneapolis) provides a 25% higher rebate for all energy efficient measures covered by the commercial rebate offerings for owners of low-income multifamily properties.
- **Efficiency Vermont's** Market-Rate and Low Income Multifamily Retrofit program targets both low-income and market-rate multifamily buildings. Specific program elements, like weatherization and deep energy retrofits, are targeted to low-income properties. Their New Construction and Renovation program is open to all multifamily owners and provides incentives for technical assistance to developers to encourage the construction of energy efficient buildings.

