

OVERCOMING MARKET RESISTANCE TO ENERGY CONSERVATION IN RENTAL HOUSING: REACHING OWNERS OF TENANT-METERED BUILDINGS

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During an eight month period ending on June 1, 1986, the City of Minneapolis persuaded a group of Minneapolis landlords to retrofit 240 units of tenant-metered rental housing. As of June 1, an additional 425 tenant-metered units were in the City's program pipeline, awaiting program approval.

The eight month effort was the first phase of a concerted City campaign to upgrade the energy efficiency of the City's 17,000 one-to-four unit rental buildings, 70% of which are tenant-metered for space heating.

Because owners of tenant-metered buildings lack strong financial incentives to make energy improvements, the City of Minneapolis has developed a comprehensive strategy that makes use of a "carrot and stick" approach. The "stick" is a mandatory rental energy standard. The "carrot" is a package of financial incentives and contracting services available through the City's Energy Bank and its Operation Insulation Program.

MANDATORY STANDARDS

The City's Rental Standard applies to all rental property, regardless of size. However, special provisions apply to one-to-four unit buildings. These owners are required to comply with the following prescriptive standards:

1. Caulking, weatherstripping and sealing around exterior joints, door and window frames and other openings in the exterior envelope.
2. Installation of storm windows and doors.
3. Modification of the existing heating system so it operates at a minimum steady-state efficiency of 75%.
4. Installation of attic insulation to capacity or to achieve an R-value of R-38, whichever is higher.
5. Installation of wall insulation to capacity or to achieve an R-value of R-11.

Under the Standard, owners of buildings with 5 or more units are not required to comply with the insulation requirements if these owners can show that they have installed other energy measures that have or will achieve a cumulative energy savings of 30% for buildings with 5 to 11 units, and 25% for buildings with 12 or more units.

While the rental energy standard applies statewide, the City of Minneapolis has incorporated it in the City's Housing Maintenance Code. This means that the City's code enforcement machinery can be used to require compliance. Complaints, known formally as requests for Determination of Status (DOS) are usually initiated by tenants. DOS inspections are made by the

City's Energy Office. If the DOS inspection indicates that the property is not in compliance with the standard, the Energy Office encourages the owner to comply voluntarily. The owner is offered the opportunity to participate in Operation Insulation and the Energy Bank. If the owner does not choose to participate in the City programs, the City Inspection Department will direct the Energy Office to complete a second DOS inspection 90 days after the initial inspection is made. If the second inspection shows that the owner is not making a good faith effort towards compliance, the Inspections Department will issue a "tag" stating that the owner has failed to comply with the 90 day order. The tag will also order a court appearance by the owner. Non-compliance can lead ultimately to fines and other penalties imposed by the Court.

CONSERVATION INCENTIVES

The City's "carrot" consists of two programs that provide contracting services and financial incentives. Since owners of tenant metered buildings are at best only marginally interested in making their buildings more energy efficient an aggressive marketing effort is necessary if energy improvements are to be made voluntarily outside the code compliance process. Voluntary participation is much preferred over code enforcement because it leads to higher quality work and greater energy savings while reducing City costs for the program. Operation Insulation is marketed to rental building owners by a direct mail campaign which reaches the owner a number of times. This direct mail campaign encourages building owners to attend a meeting to learn more about the Code and City programs. The presentation at the meeting emphasizes the benefits of the program to the owners. Following the presentation, most owners sign up for audit/consultations. At the consultation an Operation Insulation consultant writes the specifications for the insulation improvements and assigns a contractor to the building owner. The contractor is assigned from a list of insulation firms that have agreed to follow specifications set forth by the Energy Office. After the work is completed, the Energy Office makes an infra-red scan of the building to make sure that the insulation has been installed properly. If the scan shows that work was not properly completed, the contractor returns to make the needed repairs.

Owners who participate in Operation Insulation can finance their improvements through the City's Energy Bank. The Energy Bank is operated for the City of Minneapolis by the local natural gas utility, Minnegasco. Minnegasco originates loans for the City and collects loan repayments by billing borrowers on their monthly gas bill. The City's Community Development Agency (MCDA) provides loan capital for the program by issuing revenue bonds and arranging credit agreements with local lenders. The MCDA also makes grant funds available to building owners through the HUD Solar Bank Program.

During the first half of 1986, building owners were able to borrow at a rate of 11 1/4% and receive a Solar Bank grant equal to 20% of the cost of their improvements. When the HUD Solar Bank programs ends in Minnesota in September 1986, the City of Minneapolis plans to continue the Energy Bank by using Exxon oil overcharge funds to leverage private financing for the program.