Challenges in Public Housing's Pursuit of IRA Funding

Introduction:

On August 16, 2022, President Biden enacted landmark legislation known as the Inflation Reduction Act of 2022 (IRA). The IRA earmarks a substantial $369 billion towards incentivizing the adoption of clean energy technologies, specifically targeting the affordable housing sector. The objective is to mitigate the carbon footprint and alleviate energy burdens within these communities. The IRA works to advance environmental justice (EJ) by investing in underserved and low-income areas and elevating the overall standard of living, stimulating job growth through environmental health, energy efficiency, and socioeconomic development.

Undoubtedly, the Inflation Reduction Act (IRA) presents a pivotal opportunity for public and nonprofit entities to spearhead transformative initiatives in the clean energy landscape. This white paper examines the potential of the IRA to catalyze transformative change in Public Housing, identifies limitations faced by Public Housing Authorities (PHAs) in accessing IRA funds, and offers recommendations to enhance Public Housing access to these critical resources.

Funding Opportunities and Limitations:

Within the Inflationary Reduction Act are four primary vehicles designed to facilitate the acquisition of capital for enhancing resilience and efficiency measures in affordable housing.

These mechanisms are as follows:

- Department of Housing and Urban Development (HUD) – Affordable Housing: $1 Billion
- Department of Energy (DOE) – Home Energy Rebates: $9 Billion
- Environmental Protection Agency (EPA) – Green House Gas Reduction Fund: $27Billion
- United States Treasury Department – Energy Tax Credits: ~ $277 Billion

These funds, comprising loans, grants, credits, and subsidies, are strategically tailored to uplift disadvantaged and low-income neighborhoods, fostering sustainable growth and equitable prosperity. However, PHAs encounter various barriers in accessing these funds. As we delve into the intricacies of the Inflation Reduction Act (IRA), it's imperative to dissect each funding avenue and assess its relevance to the Public Housing (Section 9) stock across the nation:

HUD's Green Resiliency and Retrofit Program (GRRP) - Allocation: $1B:

The GRRP offers grants and BMIR loans for Project-Based Rental Assistance (PBRA) properties. Unfortunately, public housing authorities have limited access to these funds because a majority of RAD projects selected PBVA contracts or closed after September 30, 2021.

DOE's Home Electrification and Home Efficiency Rebates - Allocation: $9B:
While these “rebate” programs extend to public housing authorities, funds are typically available after completion (reimbursement), posing challenges in integrating them into the capital stack. Moreover, access to these rebates is part of larger housing retrofits and is typically only robustly available to PHAs within the context of the Rental Assistance Demonstration (RAD) program. Per DOE allocation, funds are contingent upon state-level approvals, with only limited states having initiated the process. As of publication of this white paper, only one state has received DOE fund approval (New York State). Not all public housing will be eligible to access these rebates, with a geographic coverage map found here: DOE Mapping. DOE would do well by following a page from EPA’s playbook and name a few nationwide non-profits who can subscribe users to the DOE electrification rebates. This would be especially helpful for states that are delayed in submitting qualified energy plans to the federal government.

EPA's Greenhouse Gas Reduction Funds (GGRF) - Allocation: $27B:
Notably, two programs within the GGRF hold promise for public housing under certain repositioning scenarios:

1. National Clean Investment Fund (NCIF): With $14B earmarked for BMIR loans, properties aspiring to electrification, achieving net-zero status, and reducing utility expenditure by over 30% can benefit. However, leveraging the property necessitates the use of the Rental Assistance Demonstration (RAD), Faircloth-to-RAD, or Special Applications Center (SAC). Draft NCIF term sheets show a BMIR loan in the 1.5-2.5% range for affordable housing, which will take a secondary position to the primary financing and have a 30-year amortization. Blending NCIF with a HUD Section 221(d4) loan under RAD/SAC could achieve substantial property transformations, but the property must exit Section 9.
2. Solar for All (SFA): A $7B initiative aimed at bringing solar energy to disadvantaged communities and increasing energy independence to low-income populations. Funds will be made available through State Energy Offices (similarly to the DOE funds), National Non-Profits and Tribal organizations. Access for PHAs, particularly for Section 9 properties, awaits clarification but is believed possible through grants in certain locations. If a PHA is considering RAD, the SFA money works well in leveraged finance situations.

United States Treasury Department – Energy Tax Credits: ~ $277 Billion:
There are three (3) primary drivers of economic benefits within the US Treasury Department for affordable housing within the IRA:

- Section 48 Investment Tax Credit can be applied when installing small-scale energy production systems (solar, wind, geothermal) on affordable housing. The tax credit associated with these initiatives offers significant advantages, including multipliers for utilizing prevailing wage and qualifying low-income community housing (list of eligible housing programs can be found here: [Eligible Housing Programs - ITC Boost)]. What makes this credit particularly appealing are the IRA's "direct pay" provisions. These provisions enable tax-exempt and governmental entities, including public housing authorities, to receive cash payments equivalent to the full value of the tax credit for eligible clean energy investments. While public housing authorities can access these benefits, implementing solar projects often requires extensive work, including roofing, electrical system upgrades, and appliance installations. This necessitates leveraging to secure the capital needed for these resiliency enhancements.

- The Section 179D Commercial and Multifamily Tax Deduction applies to construction projects involving multifamily properties of four stories or more. This deduction can be utilized for new construction, adaptive reuse, or rehabilitation endeavors. The amount of deduction is a sliding scale based on the overall percentage of efficiency achieved one year after stabilization and occupancy. Utilizing prevailing wage and reducing the energy burden by 50% can qualify for a deduction of up to $5 per square foot. It's important to note that this is a deduction, not a credit, which may introduce timing and entity complexities.

- The Section 45L Energy-efficiency in New Construction provision offers incentives for new properties designed according to EPA protocols, potentially earning credits of up to $5,000 per unit. However, new construction opportunities for public housing authorities are primarily limited to instances of Section 18 (SAC), RAD and Faircloth repurposing; whereby, presenting challenges for accessing these benefits.

This brief overview demonstrates the limitations faced by Public Housing Authorities in accessing IRA funds without pursuing a larger recapitalization event. The IRA's intent to create a multiplier effect, where each public dollar can be leveraged with many private dollars, can prove challenging under the financial constraints of the Section 9 Declaration of Trust. These insights shed light on the irony of the situation, because the legislation aims to advance Environmental Justice, a cause in which public housing plays a pivotal role.

Barriered Pathways in Building for The Future:

The recent *RADBlast!* from the Office of Recapitalization highlighted the HUD Exchange's "Build for the Future" site, which "empowers local communities to undertake initiatives focused on climate resiliency, energy efficiency, renewable energy, and environmental justice. It achieves this by providing critical access to funding opportunities, offering guidance materials, and fostering peer-to-peer knowledge sharing." As a lifelong housing professional and staunch RAD advocate, I commend this initiative; however, a significant challenge persists. Public housing authorities face hurdles in accessing the necessary funds for electrification and achieving net-zero readiness. Due to the complexities of leveraging, tax credits, owner funds, equity, and the substantial funding required, conversion under HUD's Rental Assistance Demonstration (RAD) emerges as the most viable avenue for large-scale capital improvements and retrofits. Unfortunately, progress is hindered by barriers within HUD PIH and the Special Application Center (SAC), impeding the timely implementation of these noble efforts.

Waiting for Homes:

Waiting lists for affordable housing continue to grow in both large and small cities, with few areas spared from the pressing need for more quality affordable housing. Now is time for the U.S. Department of Housing and Urban Development (HUD) to reimagine Legacy Public Housing projects, those communities having surpassed 60 years of age, representing an inefficiency in housing typography, density, and energy use. These projects can be transformed into the green communities of tomorrow, reducing our carbon footprint while enhancing housing density, expanding workforce training opportunities, and establishing robust local economies. With the immense amount of money available through the Inflationary Reduction Act (IRA), HUD holds the keys to revitalizing public housing assets through combined efforts of the Office of Public and Indian Housing (PIH) and the Office of Multifamily Housing Programs.

Recommendations for Enhancing Access:

RAD, authorized by Congress in 2012, enables public housing authorities (PHAs) to convert their Section 9 public housing to project-based Section 8 housing. Despite criticisms, RAD undeniably offers a pathway to accessing debt, equity, and capital for vital physical improvements. In many cases, the program often has profound, transformative effects, revitalizing neighborhoods adjacent to repositioned properties, uplifting entire communities, akin to mini–Choice Neighborhood Initiatives. RAD's effectiveness is enhanced when combined with the Section 18 process of the Special Application Center (SAC) for demolition and disposition. HUD's Office of Public and Indian Housing in conjunction with the Office of Recapitalization could make a monumental effort to include public housing properties in this greening of affordable housing by streamlining some initiatives, for example:

- RAD-SAC blends typically involve significant costs per unit (>$80,000/unit), which are prime for deep energy retrofits. Streamlining RAD-SAC blend deals that efficiently integrate sources of the IRA should be prioritized. When used with FHA mortgage insurance, these deals should undergo a less burdensome underwriting process. Currently, RAD conversions seeking FHA mortgage insurance are essentially unwritten twice by HUD. However, FHA mortgage insurance underwriting could be simplified with the knowledge that the Office of Recap has reviewed the deal for receiving Section 8 subsidy, and HUD's Section 8 platform will be paying debt service, which mitigates much financial risk. The excessive risk analysis of Section 8 RAD deals by the Office of Multifamily Housing is prohibitive to their mission, and simplification could increase FHA production and provide greater affordable housing. A few things which are certain include the aptitude of the licensed MAP lenders and their familiarity with RAD-SAC blends. So maybe it is time for the old MAP mantra to be heard again - "HUD Review, don't Redo".

- The 60+ year-old Legacy Public Housing project should be considered "de facto obsolete" without having to navigate the time-intensive and outdated Section 18 Cost Obsolescence process. The current Section 18 SAC demo/disposition process often exceeds a year and is rife with unnecessary burden to prove obsolescence. Consequently, much of public housing risks missing out on timely IRA financing opportunities. HUD has a commitment to make public housing a worthy recipient of these IRA funds, and they could enable over 435,000 units of aged public housing (dating back to the 1930s-1960s) to benefit from this landmark funding. HUD and the EPA are tasked with directly addressing Environmental Justice issues, with the Office of Public and Indian Housing (PIH) holding a pivotal role in the Section 18 process of demolition and disposition. Without redefining the "cost obsolescence" provisions of the Section 18 SAC process, numerous public housing properties may not fully leverage IRA funds. This is especially tragic given the IRA's foundational goal of combating Environmental Justice and Social Inequality. HUD PIH should consider deeming legacy public housing "*de facto obsolete*" for the purposes of accessing Inflationary Reduction Act (IRA) funding.

- Streamlining the braiding or stacking of financing from four (4) distinct sources of capital for energy improvements needs to be sought by all Federal Agencies. If we can get all these sources to work effectively together, it is possible to solve concerns within the aging public housing stock. Additionally, effective braiding of funds could lead to deep public housing retrofits, without putting additional stress on the bond and credit markets. This should be an overarching goal of the non-profit green banks established under the EPA Greenhouse Gas Reduction Funds (GGRF) programs.

Conclusion:

The IRA presents a unique opportunity to address environmental justice and social inequality through the revitalization of public housing. By overcoming barriers and leveraging available resources, PHAs can unlock the full potential of IRA funds to create greener, more resilient communities. It is imperative for stakeholders to collaborate and take proactive steps to ensure that public housing does not miss out on this critical opportunity for improvement. Empowering HUD's Office of Public and Indian Housing (PIH) to spearhead initiatives aimed at revitalizing Legacy Public Housing projects, and streamlining IRA fund leveraging within HUD's mortgage insurance programs can build a more sustainable and equitable future for all.