ISSUE BRIEF

Helping House America

Public Housing Authorities Directors Association

Public Housing Energy Conservation Incentive

Freeze Rolling Base Utility Consumption for 20 Years

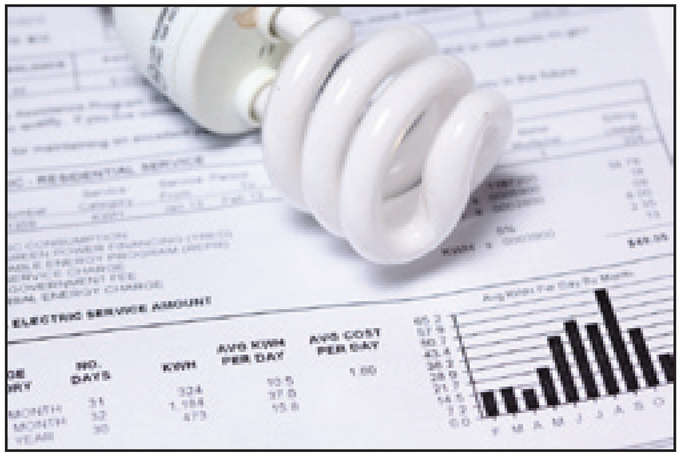
Reducing utility consumption in public housing is an important goal in order to reduce program costs, dependence on foreign oil and carbon emissions, and many housing authorities have undertaken energy conservation measures. HAs have many competing goals, however, and have fewer financial resources than they are entitled to receive. As a result, they generally focus their insufficient resources on their core purposes—filling vacant units, making repairs and helping the residents.

A major impediment to energy conservation is that currently the utility funding system does not support reducing energy use. Essentially, housing authorities are paid for the amount they spend. If they spend more, they are paid more; if they spend less, they are paid less. As a result, there is no financial incentive for a housing authority to reduce its energy consumption.

PHADA proposes taking this idea—freezing the rolling base consumption level for 20 years—and applying it across the board to all housing authorities on a voluntary basis.

HUD has one program that does provide a benefit to agencies that save energy. If a housing authority partners with an energy service company (esco), or another third party, to borrow capital to implement an energy conservation measure, it can freeze its consumption level at that property for 20 years. In other words, HUD will pay the HA for the current rate of consumption for 20 years, even if it reduces energy use and consumes less energy during that period, but it must devote 75 percent of these savings to repay the loan.

This tool is an important one, and these contracts are valuable, but they are complex, cumbersome, attracted to the low-hanging fruit, and generally only available to larger agencies. Over the 20 year lifespan of this program, it has resulted in saving about 5 percent of the program's utility usage. It appears, at least over the past decade, that that is just about the total amount of reduction recorded by the program, so it seems clear that more can and should be done.



PHADA proposes taking this idea—freezing the rolling base consumption level for 20 years—and applying it across the board to all housing authorities on a voluntary basis. With this action, housing authorities would be given a genuine incentive to reduce their energy consumption, because they would be able to keep all the savings they generate and apply them to other eligible housing purposes.

With this proposal, housing authorities would now have a real reason to focus on energy conservation amid all the competing tasks they have to accomplish. They would be able to reap immediate benefits from the many non-capital intensive ways to reduce consumption. These include checking the temperature of domestic hot water, making sure their thermostatic and boiler controls are operating properly, repairing leaks on a timely basis, educating the residents, monitoring vacant apartments and conducting preventive maintenance diligently.

Secondly, they could continue to reduce energy through capital intensive improvements by leveraging private investment with the savings. It would just be easier without having to go through the bureaucratic review and approval process now required. Housing authorities have been managing their capital work since the inception of the program in 1937, and they are perfectly capable of conceiving and carrying through these plans.

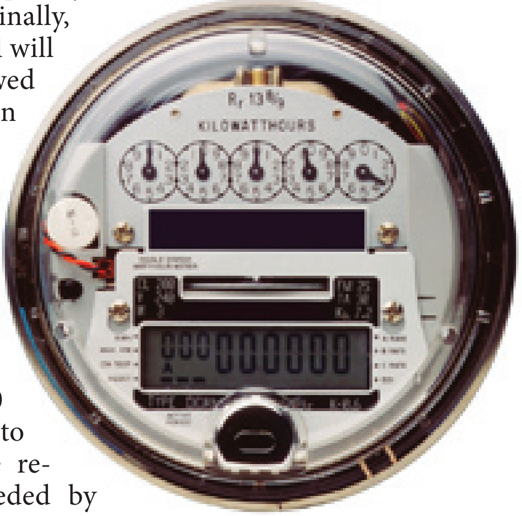
Thirdly, even small agencies would be able to take advantage of this incentive, because there would not be a size threshold determining when energy service contracts are profitable. Finally, housing authorities could use the savings to build up the human capital needed to run a successful and comprehensive energy conservation program. HAs could employ both the managerial staff needed to create, implement and monitor these energy conservation programs, as well as the maintenance personnel needed to manage the properties optimally.

Relatively little energy conservation is occurring under the current funding system, outside of the 20 year freeze for escos, so in practical terms, the federal government will continue to pay for current levels of consumption over the next two decades whether it freezes the rolling base across the board or not. So, there is no additional cost to the federal government.

In addition to the benefits a 20 year freeze would provide housing authorities, PHADA also believes it will benefit HUD and the taxpayers. Relatively little energy conservation is occurring under the current funding system, outside of the 20 year freeze for escos, so in practical terms, the federal government will continue to pay for current levels of consumption over the next two decades whether it freezes the rolling base across the board or not. So, there is no additional cost to the federal government. Down the road, though, after 20 years, federal obligations and costs will be substantially reduced, when HUD is able to take advantage of the substantial savings that have taken place.

Although this proposal makes freezing the rolling base consumption level for 20 years voluntary, PHADA believes that the vast majority of agencies will take advantage of a policy that offers them an opportunity to reduce their expenses and retain the savings. Should an agency choose not to participate, again it would not cost HUD anything, because it will simply continue using the existing system. Agencies should have this option in case there are local circumstances that might increase energy usage, such as labor issues, reduced operating subsidy levels due to being a Harvard cost study decliner or changes in tenant populations and energy consumption beyond the authority's control.

Similarly, even though PHADA believes that there will be significant reductions in energy usage based on this proposal, it does not tie it to any specific target reductions, with possible sanctions, such as reduced funding, if they are not met. For one thing, HUD will not spend anything more with this proposal, and it already reaps an important benefit from an agency's participation through its commitment not to increase energy use. Furthermore, every HA is at a different stage in their energy conservation programs, and while some may be able to reduce consumption by 25 percent, others may be so far along that they may not even be able to achieve 5 percent. It also may take different amounts of time to achieve their goals—some accomplishing them more quickly than others. Finally, since capital will be borrowed based on the savings available during a 20 year freeze, it needs to remain in place for the full 20 year period to provide the reliability needed by lenders.



PHADA

Helping House America

Public Housing Authorities Directors Association

511 Capitol Court NE • Washington, DC 20002 • (202) 546-5445 • www.phada.org