California Utility Allowance Calculator (CUAC)

Green Affordable Housing Coalition
Oakland, CA

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Background

• 2 Problems Solved
  ➢ Getting power from one PV system credited to multiple tenant meters in a cost effective manner will be solved by Virtual Net Metering
  ➢ Nonexistent developer financial incentive for increasing energy efficiency and using renewable generation due to inaccurate utility allowances solved by using the California Utility Allowance Calculator
Implications of using the CUAC

$15 doesn’t really mean much to my project . . . does it?
Situations, Decisions, Consequences

• A “Typical” 9% Tax Credit Project
  ✓ 80 low income units with 1 manager unit
  ✓ New construction
  ✓ Large family project
  ✓ QCT or DDA location
  ✓ Majority of funding expected from tax credit equity
  ✓ Hard debt loan with multiple sources of soft subordinate funding
I’m In Business To Make Money!
I’m In Business To Make Money!

• Situation:
  ✓ The project is a very strong project and perfectly viable as is.
  ✓ It meets all the minimum requirements.
  ✓ The developer has built several projects in this city, knows the area, knows the risks.
I’m In Business To Make Money!

• Decision: Developer decides to pocket the additional cash that results from using the California Utility Allowance Calculator
I’m In Business To Make Money!

• Consequences:
  ✓ Increased profit taking of $5 per unit = $4800 per year.
  ✓ Increase in the DSCR from 1.15 to 1.18 in Year 1.
  ✓ Marginally improved position to syndicate or directly place the tax credits due to lower risk.
  ✓ Regular deterioration of the project as a place to live and as an investment.
I’ve Got Bills to Pay . . .
I’ve Got Bills to Pay . . .

• Situation:
  ✓ The project is a strong project, but located in a very competitive market.
  ✓ Each year expenses increase at or greater than the rate of inflation.
  ✓ The developer is expecting a longer than normal lease-up period and higher than average turnover.
I’ve Got Bills to Pay . . .

• Decision:
  ✓ Developer decides that some competitive edge is needed.
  ✓ Considering various energy efficiency measures, the decision is made to go with those cost-effective measures that increase tenant comfort but with a relatively quick payback or payoff.
  ✓ Also decides to add increased security measures.
I’ve Got Bills to Pay . . .

• Consequences:
  ✓ Increased costs of $200,000 offset by tax credit equity and utility incentives:
    +$200,000 in costs = $260,000 in qualified basis
    -$175,500 from tax credit equity $234,000 in total federal tax credits x$.75 per tax credit)
    -$20,000 in utility incentives
    =$4,500 in additional debt
I’ve Got Bills to Pay . . .

✓ Increased cash flow of $10 per unit
  = $9,600 per year
  -$365 for debt service
  -$8,800 for additional/more realistic operating expenses including increased maintenance, security and a lease-up incentives
  = $435 in increased revenue

✓ No substantial change in the DSCR
I’ve Got Bills to Pay . . .

✓ Slight decrease in tenant turnover due to more market appropriate operating expensing and increased tenant retention.

✓ Marginally improved position to syndicate or directly place the tax credits.

✓ Marginal improvement in the project as a place to live and as an investment.

✓ Lower energy consumption and green house gas emissions associated with the development.
Green Building is $mart Business
Green Building is $mart Business

• Situation:
  ✓ Developer is faced with a very competitive market.
  ✓ Additionally, green building is emphasized by state laws and local ordinances.
  ✓ The Developer’s equity investors take a longer-term view than most.
Green Building is $mart Business

• Decision:
  ✓ Developer decides that a substantial competitive edge is needed.
  ✓ Considering various energy efficiency measures, the decision is made to go with those cost-effective measures that increase tenant comfort first, but to also include some longer-term cost-effective measures.
Green Building is $mart Business

• Consequences:
  ✓ Increased costs of $900,000 fully offset by tax credit equity, state and local utility incentives:
    +$900,000 in costs = $1,170,000 in qualified basis
    -$842,400 from tax credit equity financing ($1,053,000 in total federal tax credits x$.80 per tax credit)
    -$28,800 in utility incentives
    -$120,000 in solar incentives
    =-$91,200 hard debt
Green Building is $mart Business

✓ Increased cash flow of $15 per unit
  +$14,400 in Year 1
  +7,756 for less debt service
  -$14,800 for additional operating expenses
    including increased PV maintenance costs, etc.
  =+$7,356 in increased revenue
✓ Substantial change in the DSCR from 1.15 to 1.29 in Year 1
Green Building is $mart Business

✓ Decrease in tenant turnover due to improved competitive position of the project in the marketplace.

✓ Improved position to syndicate or directly place the tax credits.

✓ Substantial improvement in the project as a place to live and as an investment.

✓ Lower energy consumption and green house gas emissions associated with the development.
Getting the Maximum Value from the CUAC

- Find a good energy analyst and bring that analyst (who will sign the CUAC output) into the development process as soon as possible.
- The CUAC is a flexible, iterative tool – use it to explore options and help you find the best set of energy efficiency and renewable generation measures for your project.
Wrap Up

Examples vs. Reality
Questions?
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http://www.gosolarcalifornia.org/affordable_housing/cuac.html