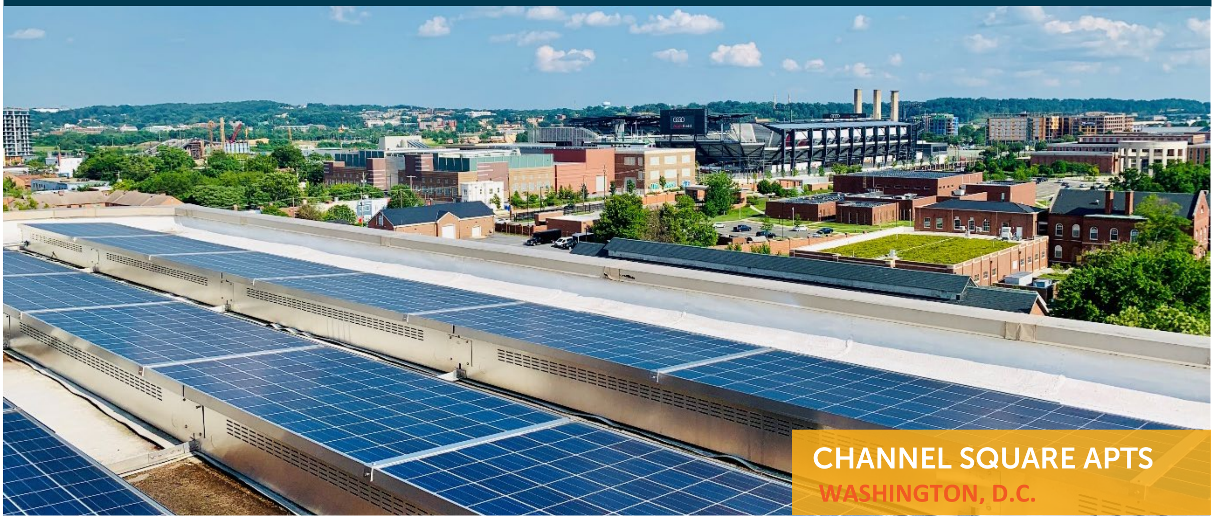
NATIONAL HOUSING TRUST

POLICY BRIEF

The Inflation Reduction Act: Opportunities to Preserve and Improve Affordable Housing through Resilience



The Inflation Reduction Act (IRA), passed by Congress on August 12, 2022, provides billions of dollars in funding through direct spending and tax credits that can be used to preserve affordable housing, reduce energy costs, and increase community resilience.

This document describes the energy and resilience provisions in the bill that can improve affordable housing. It details the spending and tax credit provisions that directly target affordable housing, and those that are not targeted directly to affordable housing but could be leveraged to invest in the sector. The document also identifies considerations for how the spending provisions should be implemented to maximize opportunities to benefit affordable housing providers and renters, and advance more sustainable, resilient multifamily housing solutions.

DIRECT SPENDING

The following section describes the provisions in IRA that provide direct appropriations for energy efficiency and climate-related programs. There's a total of $25B of spending that is directly targeted to or can be leveraged for affordable housing that HUD, DOE, or EPA will administer. As agency staff develop their implementation plans, they should consider affordable housing providers' financial and staff capacity challenges in executing energy and resiliency retrofits. Program implementation should reflect the following priorities:

- Guidance/rules should be developed after significant engagement with stakeholders, including renters, housing providers, and state and local housing agency staff.
- Given that affordable housing properties generate limited excess cash flow, programs should limit requirements for affordable housing owners to provide upfront capital or pay out-of-pocket.
- Program requirements should ensure that funding can be leveraged to implement energy and resiliency retrofits as part of a building recapitalization by providing funding commitments early in the project development and design process and coordinating program administration with state and local housing finance agencies.
- Programs should provide funding for technical assistance to help affordable housing providers plan for and implement energy and resiliency upgrades.

Investing in affordable housing is key to addressing climate change and reducing energy burdens

We cannot meet our nation's climate goals without reducing greenhouse gas emissions from housing – and multifamily rental housing represents a critically important and impactful sector of housing. In HUD's portfolio alone, on-site energy usage results in an estimated 13.6 million metric tons of carbon emissions annually. Low-income households also disproportionately bear the brunt of climate impacts, with increased childhood asthma resulting from diminished air quality, increased mortality rates due to high heat, lost labor hours due to climate-related events, and lost property due to inundation.

Comprehensive energy retrofits of affordable housing result in cost savings for residents and housing providers. The cost of utilities is the third-highest expense for low-income families, after shelter and grocery costs. Energy is one of the highest controllable operating costs in affordable housing. High operating costs put a financial strain on already limited operating budgets in affordable housing. Reducing energy costs allows building owners to maintain affordable rents and invest in improving housing conditions.

Improving Energy Efficiency or Water Efficiency or Climate Resilience of Affordable Housing

Administering Agency: U.S. Department of Housing and Urban Affairs

Eligible Recipients: Owners and sponsors of HUD-subsidized Section 202, 811, Project-based Section 8, and Section 236 properties that agree to an extended period of affordability

Funding Amounts and Purposes: $1B appropriations through September 30, 2028, including:

- $837.5M for the cost of providing grants and direct loans, including to subsidize gross obligations for the principal amount of direct loans up to $4B
- $60M to support HUD administrative activities
- $60M for contracts and cooperative agreements
- $42.5M to benchmark energy and water use for eligible properties

Eligible Uses:

- Improve energy or water efficiency, indoor air quality or sustainability
- Implement the use of low-emission technologies, materials, or processes, including zero-emission electricity generation, energy storage or building electrification
- Address climate resilience
- Energy and water benchmarking

HOMES Rebate Program

Administering Agency: U.S. Department of Energy via State Energy Offices

Eligible Recipients: Homeowners and multifamily building owners and aggregators (entities that may receive rebates on behalf of homeowners and multifamily building owners) who undertake whole-house energy efficiency retrofit projects that achieve modeled or measured reductions in energy usage.

Funding Amounts and Purposes: $4.3B available through September 30, 2031, for grants to State Energy Offices to provide rebates for the costs of energy efficiency retrofits that are modeled to achieve or have achieved verifiable minimum energy use reductions.

Eligible Uses:

- Rebates to cover the costs of building energy efficiency upgrades
- Payments of $200 to contractors or aggregators for each home located in a disadvantaged community that receives a home energy efficiency retrofit rebate
- Up to 3% of the funds may be used by DOE for administrative purposes and providing technical assistance
- Up to 20% of a state's grant allocation may be used for planning, administration, or technical assistance related to implementing a rebate program

Multifamily buildings with more than 50% of dwelling units occupied by households with incomes at or below 80% AMI (LMI multifamily) qualify for higher incentive levels as summarized below. State Energy Offices may request authority from DOE to increase the rebate amounts for LMI multifamily buildings.

HOMES Rebate Program- Energy Performance-Based, Whole-House Rebates	
Energy Savings Level	**Maximum Rebate**
LMI multifamily with modeled energy system savings of 20-34%	The lesser of $4,000/ dwelling unit or 80% of project cost
LMI multifamily with modeled energy system savings of 35% or more	The lesser of $8,000/ dwelling unit or 80% of the project cost
LMI multifamily with measured energy savings of 15% or more	A payment rate per kWh saved up to $4,000 for a 20% reduction in energy use per dwelling unit for the average multifamily building in the state or 80% of the project cost

State Funding Allocation Amounts and Requirements: State allocation amounts are determined by the allocation formula for the State Energy Program in effect on January 1, 2022. The DOE Secretary will release a state's funding allocation when the State energy office submits an approved application with an implementation plan. State energy offices have two years from the date the law is enacted to submit an implementation plan. States that do not submit plans in that timeframe will have their allocation of funds redistributed to states that have submitted approved plans.

High-Efficiency Electric Home Rebate Program

Administering Agency: U.S. Department of Energy via State Energy Offices

Eligible Recipients: Low- or moderate-income (LMI) homeowners and multifamily building owners undertaking a qualified electrification project and entities carrying out qualified electrification projects on behalf of LMI homeowners and multifamily building owners. LMI households have incomes less than 150% of AMI. LMI multifamily buildings have more than 50% of dwelling units occupied by households with incomes below 150% AMI.

Funding Amounts and Purposes: $4.5B available through September 30, 2031, for grants to States ($4.3B) and Tribes ($225M) to provide rebates for qualified home electrification projects.

Eligible Uses:

- Rebates to cover the costs of building electrification upgrades
- Up to $500 to entities carrying out qualified electrification projects on behalf of LMI homeowners and multifamily building owners
- Up to 3% of the funds may be used by DOE for administrative purposes and providing technical assistance
- Up to 20% of a state's grant allocation may be used for planning, administration, or technical assistance related to implementing a rebate program

High-Efficiency Electric Home Rebate Program Amounts	
Measure	**Rebate Amount**
Heat pump water heater	Up to $1,750/appliance
Heat pump for space heating or cooling	Up to $8,000/appliance
Electric stove, cooktop, range, or oven	Up to $840/appliance
Electric heat pump dryer	Up to $840/appliance
Electric load service center upgrade	Up to $4,000
Insulation, air sealing, and ventilation	Up to $1,600
Electric wiring	Up to $2,500
Maximum rebate: - An eligible entity receiving multiple rebates - Multifamily w/ 50% or more residents w/ incomes between 80-150% AMI - Multifamily w/ 50% or more residents w/ incomes less than 80% AMI	-Maximum allowable rebate- $14,000 -Up to 50% of the cost of the electrification project -100% of the cost of the electrification project

State Funding Allocation Amounts and Requirements: State allocation amounts are determined by the allocation formula for the State Energy Program in effect on January 1, 2022. The DOE Secretary will release a state's funding allocation when the State energy office submits an approved application with an implementation plan. State energy offices have two years from the date the law is enacted to submit an implementation plan. States that do not submit plans in that timeframe will have their allocation of funds redistributed to states that have submitted approved plans.

Greenhouse Gas Reduction Fund

Administering Agency: Environmental Protection Agency (EPA)

Eligible Recipients: A nonprofit organization that:

- is designed to provide capital, leverage capital, and provide other forms of financial assistance for the rapid deployment of low- and zero-emission products, technologies, and services,
- does not take deposits other than deposits from repayments and other revenue from providing financial assistance,
- is funded by public or charitable contributions, and
- invests in or finances projects alone or in conjunction with other investors

Funding Amounts and Purposes: $27B available through September 30, 2024, including $15B targeted to low-income and disadvantaged communities, to support clean energy investments, including:

- $7B in grants to States, municipalities, Tribal governments, and eligible recipients to provide financial assistance, including grants and loans, and technical assistance to allow low-income and disadvantaged communities to deploy or benefit from zero-emission technologies
- $8B in grants to eligible recipients to provide financial and technical assistance to support eligible uses in low-income and disadvantaged communities
- $11.97B to eligible recipients to provide financial and technical assistance to support eligible uses
- $30M to EPA to support administration

Eligible Uses: Qualified projects include any project, activity, or technology that:

- Reduces or avoids greenhouse gas emissions in partnership with, and by leveraging investment, from the private sector, or
- Assists communities to reduce or avoid greenhouse gas emissions and other forms of air pollution.

Eligible uses include direct and indirect investments. Eligible recipients that use the funds for direct investments must:

- provide financial assistance to qualified projects at the national, regional, State, and local levels,
- prioritize investment in qualified projects that would otherwise lack access to financing, and
- retain, manage, recycle, and monetize repayments and other revenue from providing financial assistance.

Eligible recipients that use the funds for indirect investments must provide funding and technical assistance to establish new or support existing public, quasi-public, or nonprofit entities that provide financial assistance to qualified projects, including community- and low-income-focused lenders and capital providers.

Additional Requirements: Grants will be awarded on a competitive basis beginning within 6 months of enactment of the law and must be distributed by September 30, 2024.

TAX INCENTIVES

45L- New Energy Efficient Home Credit Extension and Increase w/ LIHTC Basis Fix

Extends the tax credit through December 31, 2032, and increases tax credit amounts. To qualify, a multifamily dwelling unit must meet the national and regional requirements of the most recent Energy Star Multifamily New Construction program. Tax credit amounts vary depending on the level of building energy performance and whether prevailing wage requirements for building construction are met (see chart below).

New Energy Efficient Home Credit Extension		
Energy Performance	Meets Prevailing Wage?	Tax Credit Amount
ENERGY STAR New Construction	No	$500/dwelling unit
DOE's Zero Energy Ready Homes	No	$1,000/dwelling unit
ENERGY STAR New Construction	Yes	$2,500/dwelling unit
DOE's Zero Energy Ready Homes	Yes	$5,000/dwelling unit

To qualify for the prevailing wage tax credit amount, laborers and mechanics employed by the taxpayer, contractor, or subcontractor, must be paid wages at rates less than the prevailing rates in the locality.

If the multifamily building is financed by the Low Income Housing Tax Credit (LIHTC) program, the tax credit will not reduce the eligible basis of the building.

48- Investment Tax Credit (ITC) Bonus Credit for the Installation of Renewable Energy Property w/ LIHTC Basis Fix

IRA establishes a bonus credit for solar and wind facilities connected to low-income communities. The bonus credit is available to projects placed in service in low-income communities and/or facilities installed as part of a qualified low-income residential building.

The maximum net output for qualifying facilities is 5 megawatts. Energy storage technology installed in connection with solar or wind facilities is eligible for the bonus credit.

To be considered a qualifying low-income residential building, the financial benefits of the electricity produced must be allocated equitably among the occupants of each dwelling unit.

The bonus credit is available in 2023 and 2024 and is limited to 1.8 gigawatts of solar and wind capacity in each year with unused amounts carried forward after 2024. The Secretary of Treasury must develop the procedures for allocating the solar and wind capacity to eligible facilities within six months after the bill is enacted.

Investment Tax Credit (ITC) Bonus Credit	
Solar and wind energy facilities, incl. energy storage technology...	**Bonus Credit Rate:**
installed in a low-income community*	10%
installed as part of a qualifying low-income residential building project** and the financial benefits produced by the facility are allocated equitably among occupants *OR* installed as part of a low-income economic benefit project***	20%

**low-income community defined as census tracts with poverty rates of 20% or more, or census tracts with median incomes of 80% or less*
***qualified low-income buildings include buildings participating in the following housing programs: Section 202 Elderly Housing, Section 811 Supportive Housing for Persons with Disabilities, Housing Opportunities for Persons with AIDS, McKinney–Vento Homeless Assistance, HOME, certain mortgage insurance programs, Section 8, rural housing assistance, Low Income Housing Tax Credit, Housing Trust Fund, homeless veterans programs, a housing program administered by a Tribally designated housing entity, and other affordable housing programs as the Secretary may provide*
**** qualified low-income economic benefit projects provide at least 50% of the financial benefits of the electricity produced by the facility to households with income of less than 200% of the poverty line or at or below 80% of area median income*

If the multifamily building is financed by the Low Income Housing Tax Credit (LIHTC) program, the tax credit will not reduce the eligible basis of the building.

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