

**WRITTEN STATEMENT**

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**Hearing before the  
Subcommittee on Housing and Community Opportunity  
Committee on Financial Services  
United States House of Representatives**



**“H.R. 2336, the Green Resources for Energy Efficient Neighborhoods Act of 2009”**

**June 16, 2009**

Good morning Chairman Waters, Ranking Member Capito, Congressman Perlmutter, and distinguished members of the Committee. Thank you for the opportunity to testify on behalf of the Department today on the GREEN Act.

I want to commend you, Madam Chair, for your leadership on this issue, as well Congressman Perlmutter for his strong commitment to energy efficiency and green building through HUD's programs and in the affordable housing sector at large. I know that this bill was passed last year by the House, with strong support from Chairman Frank. I understand that HUD staff have been helpful to you in providing you technical comments on the bill, and I want to assure you of our continued cooperation and assistance as we go forward.

Before coming to HUD, I was County Executive in King County, Washington, where we instituted a strong green building and Smart Growth program. Secretary Donovan has proposed creating a new Office of Sustainable Housing and Communities at HUD, and has asked me to oversee that office. In that capacity I will be responsible for implementing HUD's green building and energy efficiency initiatives.

In King County, we did a study called HealthScape, which looked specifically at how the built environment and the transportation system impacts public health and climate change. We found that people living in the most walkable areas of the county were less likely to be overweight and more likely to report being physically active.

Further, people who live in these walkable areas drove 26% less than people living in the most sprawling communities. More importantly, this study showed us that we, as a local government can influence health and climate change through our actions that shape the built environment.

But we also found that there were wide disparities between health for low-income families and minorities than the majority population. That unfortunately is also true in the energy area. While everyone is hurt by high energy costs, low- and moderate-income families are especially vulnerable to rising energy prices. A survey by the National Energy Assistance Directors Association found that many working households accommodate increases in energy by cutting back on other needs, such as medicine, food, or education.<sup>1</sup>

I'm pleased to report to you today that Secretary Donovan has significantly ramped up HUD's commitment to improving the energy efficiency of the 5 million units subsidized by various HUD programs – through the expenditure of Recovery Act funds, through our FY 2010 budget proposals, as well as through partnerships with the Department of Energy, the Department of Transportation, and the EPA.

HUD's own budget is directly impacted by utility costs. HUD spends an estimated \$5 billion on energy, either directly in the form of public housing operating subsidies or indirectly through utility allowances and Section 8 contracts in assisted multifamily housing. This is an area where significant cost savings are possible, freeing revenue for other important capital investments or rental assistance needs. For example, a modest savings of just 5 percent per year could generate a savings of \$1 billion over the next 5 years.

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<sup>1</sup> National Energy Assistance Directors' Assn, *2008 Energy Costs Survey*, June 6, 2008.

The overall cost of utilities in public housing (including water and sewer charges) in 2006 totaled \$1.85 billion, including an estimated \$421 million that was spent through utility allowances on tenant-paid utilities. Utility costs have also increased in assisted housing. Average owner-paid per-unit utility costs increased by 28 percent between 2000 and 2005. In addition, HUD spent an estimated \$3.2 billion on project- and tenant-based utility allowances in 2007.<sup>2</sup> The average tenant-based Section 8 utility allowance is now \$1,467/year.

So, high energy costs in federally subsidized housing are critical to the overall health of the portfolio, and to the welfare of the residents. HUD has made an unprecedented commitment to energy efficiency, beginning with the economic recovery package enacted by Congress earlier this year.

Some \$4 billion in Capital Fund dollars is going to public housing authorities (PHAs) for modernization, including energy efficient upgrades. HUD has awarded nearly \$3 billion to PHAs through formula grants, and later this year will award nearly \$1 billion competitively, of which \$600 million is specifically allocated to high performing energy efficiency projects, as well as green projects that meet Enterprise Green Communities standards. In addition, approximately \$250 million will fund green energy retrofits in multifamily housing with project-based assistance, and additional funds will be available through the competitive portion of the Native American Housing Block Grant program, as well as through the second round of the Neighborhood Stabilization Program, both of which have strong incentives for improving the energy efficiency of buildings.

To leverage these funds, HUD formed a partnership with the Department of Energy (DOE) to coordinate investment of Recovery Act funds that could be used for energy efficiency in housing. These funds provide a unique opportunity to accelerate deployment of energy efficient and green building technologies and at the same time help create a highly qualified, highly trained, and high-performing workforce.

HUD's partnership with DOE includes the development of a common set of guidelines and specifications for retrofitting public housing, as well as privately-owned, federally-subsidized rental properties. These guidelines will assist housing authorities on how to use Recovery Act funds to "go green" through sound energy efficient building practices.

The two agencies also signed a Memorandum of Understanding to explore the elimination of duplicative income verification requirements, in order to streamline the evaluation of eligibility of public and assisted housing under the DOE weatherization assistance program.

In the broader housing market, HUD will work with DOE and the emerging home performance industry to develop a common baseline for measuring home energy use and the gains from efficiency improvements. HUD has also proposed a new Energy Innovation Fund (EIF) in its fiscal year 2010 budget that will provide financing for energy efficiency in the residential sector. It will address the broader housing market by leveraging private sector (utility and other third party) financing to stimulate the development of model residential energy efficiency retrofit initiatives in specific markets.

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<sup>2</sup> See HUD Energy Progress Report to Congress, November 2008.

In addition to supporting local energy funds, the Energy Innovation Fund will also re-engineer FHA's mortgage products, both in the single family and multifamily sector, to support energy efficiency lending. By re-engineering the product and providing incentives for consumers, we hope to greatly expand the reach of this product to enable home owners to include energy efficiency improvement as part of their refinancing transaction, or at the time of purchase.

In addition, an increasingly important element of all green buildings is the "location efficiency" of the property. Most green building programs provide additional points for housing that is located at or near transit, or provides access to close-in or walkable amenities and services. This is critical in times of rising gas prices.

On average, Americans spend more than half of their incomes (52 percent) on housing and transportation. HUD has joined with the Department of Transportation to look at housing and transportation in a coordinated, integrated way. HUD is proposing to strengthen regional housing, transportation, and land use planning by funding \$100 million in regional planning grants that will help metropolitan and rural areas develop regional plans focusing on housing and transportation and other regional issues. We will also be looking at the location efficient mortgage concept referenced in H.R. 2336.

Moving now to H.R. 2336, I would like to commend Congressman Perlmutter and the bill's co-sponsors for the work they have done to address these issues. The bill is wide ranging and comprehensive, and in totality represents an important effort to address the high cost of heating, lighting and cooling federally-financed, assisted or insured housing. I'm not in a position to comment on all the specifics of H.R. 2336 today, but I will respond to the questions that the Committee has asked us to address.

- *Does HUD have the capacity to incorporate energy efficiency standards into the programs outlined in the GREEN Act?*

Section 4 of H.R. 2336 is entitled "Minimum HUD Energy Efficiency Standards and Standards for Additional Credit." Section 4(a) sets the minimum standard at the 2009 International Energy Conservation Code, or ASHRAE 90.1-2007 for new construction, and sets a 20 percent reduction in energy costs for rehabilitation. Section 4(b) provides for "enhanced" energy efficiency standards, which includes Energy Star for New Homes, or one of several national green standards.

Section 4(c) gives the Secretary the authority to apply these standards by regulation to "any covered federally assisted housing" which includes any structure for which any HUD assistance is provided. As currently written, H.R. 2336 gives the Secretary broad authority to apply this standard to all HUD-assisted properties, some subset of HUD's inventory, or only those initiatives specifically cited elsewhere in the bill.

Note that any new standard or set of standards applied to HUD-assisted properties in general would have to supersede or complement the standard already contained in Section 481 of the Energy and Independence Security Act of 2007 (EISA). Section 481 clearly specifies which categories of HUD properties are covered, namely,

(A) New construction of public and assisted housing and single family and multifamily residential housing (other than manufactured homes) subject to mortgages insured under the National Housing Act;

(B) New construction of single family housing (other than manufactured homes) subject to mortgages insured, guaranteed, or made by the Secretary of Agriculture under title V of the Housing Act of 1949; and

H.R. 2336 gives HUD more flexibility than does EISA in determining which programs the standard should apply. A particular issue that HUD has had to address is the language in EISA that requires the standard to be “cost effective” and that HUD shall “consult with an “advisory task force.” The time and expense involved in meeting these two provisions have made it difficult and time consuming for HUD to adopt a higher standard.

Note that the HUD minimum standard would only make a difference in those states or locations with lower codes. If the 2009 IECC were to be established today as the minimum HUD standard, in most states the HUD standard would be more stringent than the prevailing code, since the 2009 IECC has just been completed and states and localities are just starting to adopt the new code. This would establish HUD as a leader in the field, but will also be a challenge since in those states, local code inspectors; architects and engineers will not necessarily be familiar with the new code. However, 25 states have adopted the 2006 IECC, and it is likely that most of them will adopt the 2009 IECC in the near- or medium-term, in which case HUD would be following, not leading in these states.

Another consideration is whether the same standard should apply equally to different categories of HUD-supported housing: public housing; multifamily assisted housing; or multifamily insured housing. For single family FHA properties, in states where HUD standard is higher than the local code, localities and builders would need to become familiar with two codes – the prevailing local code and the HUD code. In addition, home buyers could be disqualified from purchasing new homes with FHA insurance if these properties did not meet the higher HUD standard. A higher standard may be more appropriate for multifamily properties, where owners apply for financing early on in the development process.

- *Will having the federal government take a lead in creating financing mechanisms to lower the cost of energy efficient improvements in single family and multi-family housing impact the rest of the marketplace?*

The answer is yes. The first area where a federal role could make a difference will be in leveraging private sector resources. A second area would be in bringing to scale successful models. A recent study, by Merriam Fuller, for the Vermont Energy Investment Corporation and the California Energy Commission, identified about 150 existing energy efficiency retrofit programs in the U.S. These include state programs, such as in Vermont, New York, Wisconsin, California, Pennsylvania and Oregon, as well as local programs in Chicago and elsewhere.

The issue is not the lack of programs, but that they have reached a very small share of the market. These programs have reached *less than .1%* of the residential market. The federal government can help grow that market, not through risk taking measures, but by expanding

success. That is what we intend to do through our proposed Energy Innovation Fund proposal mentioned previously: we want to provide competitive grants to programs that adopt successful models with proven records of success.

A key to success is the extent in which these programs tap local expertise or resources, such as local utilities, or private lenders, and industry experts to leverage funds and technical capacity to deliver a quality product. That's been the track record for example, of the Low Income Tax Credit, as well as the HOME program, which are typically used in combination with many other sources of financing.

A third area where federal funding can impact the rest of the marketplace is in helping create the infrastructure required to ensure that the funds are wisely spent, including the energy services, the technical expertise required to rate buildings, install the products properly and implement quality control systems and procedures.

The federal role in creating financing mechanisms to lower the cost of energy efficiency improvements is still under review; however, another area where federal financing could lead the way is in testing or demonstrating energy efficient or green building products and practices. The private sector may not be willing to invest in testing new or innovative products.

- *There is not enough data on the cost savings of making energy efficient improvements to residential homes. Will the 50,000 demonstration program create enough data to fill this information gap?*

There is actually quite a bit of information on cost savings resulting from energy efficiency, but while significant demonstration programs of any appropriate size supplement our knowledge, the objective of the Administration's proposed Energy Innovation Fund is to fund successfully "already demonstrated" programs and encourage broader adaption of such approaches by means such as leveraging private investment. Moreover, the new Green Retrofit Program for Multifamily Housing and other Recovery Act-funded programs will produce additional data on cost savings from energy efficient improvements.

Many studies have already found a significant return on some efficiency investments. A study of energy savings in single-family homes through the Department of Energy's Weatherization Assistance Program from 1993 to 2005 found that the program achieved savings of 23 percent in gas-heated single-family detached homes.<sup>3</sup>

A study conducted by Lawrence Berkeley National Laboratory of energy retrofits in 25,000 units of multifamily housing showed that energy savings ranged from 10 to 22 percent of pre-retrofit consumption.<sup>4</sup> The median energy savings was 15 percent. Simple payback on energy conservation measures was 6 years in gas- or oil-heated buildings.

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<sup>3</sup> Schweitzer, Martin, Estimating the National Effects of U.S. DOE's Weatherization Assistance Program With State Level Data: A Meta Evaluation 1993-2005, Oak Ridge National Laboratory, September 2005.

<sup>4</sup> Goldman, *et al.* Retrofit Experience in U.S. Multifamily Buildings: Energy Savings, Costs and Economics, 1988.

These and other studies point to significant savings resulting from energy improvements. For example, through some 200 Energy Performance Contracts in public housing, HUD estimates a cost savings of approximately \$100 million/year for an investment of \$571 million, and an average investment of less than \$4,000 per unit.

- *Are there any additional programs within HUD the Secretary may include within Sec. 4 minimum HUD Energy Efficiency Standards and Standards for additional credit?*

Section 4 of the bill sets the 2009 International Energy Code or ASHRAE 90.1 – 2007 as the minimum HUD energy efficiency standard for new construction. As noted above, there are certain demonstration and other programs specifically cited in H.R. 2336 to which the “additional credit” provision applies. The Secretary would have broad latitude under this program to apply these standards to a range of formula grant programs, as well as mortgage insurance programs. The Secretary could choose to apply the minimum standard by regulation to competitive grant programs, but in these cases we are already encouraging a higher standard than the minimum 2009 IECC standard stated in the bill - the standard for Energy Star for New Homes.

- *What are the primary challenges facing HUD’s implementation of the programs and standards that the GREEN Act will mandate?*

With regard to standards, our reading of the bill is that Section 4 (c) gives the Secretary the discretion to establish minimum or enhanced standards as cited in the bill for HUD programs. The only programs for which these standards are mandated are for certain demonstration programs cited in the bill. The primary challenge will be that grantees and/or recipients of HUD funds in those states who have not yet adopted the minimum standard (IECC 2009) would need to familiarize themselves with the higher code requirements.

Also, if there is a “green premium” associated with implementing these standards, HUD might need to raise its Total Development Cost (TDC) limits accordingly; however it should be clear that any increases in front-end development costs would be offset by lower operating costs, and that energy efficient construction doesn’t always require additional costs. Finally, grantees or loan recipients may need to adopt a “life-cycle costing” approach in order to address the green premium that may be involved. (Life-cycle costing involves taking into account both the “first cost” of an improvement as well as the energy cost-savings that will result over the life of the equipment.)

With regard to other programs, a concern that has been raised by our program offices is that some of the new initiatives, such as Section 27 (solar financing) which includes financing for manufacturers or installers, may be outside current HUD expertise, which is in the area of real estate financing.

- *What is the effect of “green” development on low and moderate income households and communities?*

“Green” development can have, and is already showing, benefits for low and moderate income households and communities. Existing research to date has shown that energy efficient housing

results in economic benefits, health benefits from improved indoor air quality, environmental benefits resulting from lower greenhouse gas emissions, and location efficiency benefits by targeting existing developed urban areas.

Experience from large scale green developments such as the Enterprise Green Communities program has demonstrated that new and existing properties achieving 20 to 30 percent greater energy efficiency generate substantial cost savings from lower energy and water usage. Such savings—hundreds of dollars per unit annually—may accrue directly to low-income residents, may be reinvested back into properties, or both. For low income families who pay their utilities, such savings can dramatically affect their cost of living.

We can also expect substantial health gains by building green. A prominent example of this is the High Point public housing development in Seattle. As a result of adding features such as low-VOC paints, adhesives, caulks, formaldehyde-free materials, ventilation systems with air filters and other measures to reduce asthma, the number of asthma-free days increased, unplanned clinical visits declined, caretaker quality of life improved, and mold was completely eliminated.

In addition to these benefits, Recovery Act funding for energy efficient building can become an engine of economic and jobs growth for lower income families and their communities. Residential construction employment, we all know too well, has fallen drastically during this recession. Energy efficient home rehabilitation and new construction have the potential to create entry level jobs opportunities for low-income individuals, when cities implement a combination of policies that promote green building, job training and labor standards. Through ARRA, the Administration is beginning to put this infrastructure in place to assure that it happens.

Madam Chair and members of the Committee, I hope this overview of HUD programs and initiatives address the challenges that we are facing as we address green building and energy efficiency in HUD-assisted properties. We are still in the process of reviewing the particulars of H.R. 2336 and will be happy to provide you with more detailed comments once that review is complete.

Thank you for the opportunity to appear before the committee today.