Implementing ARRA

Design Snapshot

Chicago's Multi-Family Energy Retrofit Program: Expanding Retrofits With Private Financing

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The city of Chicago is increasing retrofits by using stimulus dollars to expand the opportunity for energy efficient living to low-income residents of large multi-family rental buildings. To aid this target demographic, often left underserved by existing programs, the city's new Multi-Family Energy Retrofit Program introduces an innovative model for retrofit delivery that relies on private sector financing and energy service companies.

Chicago's Multi-Family Energy Retrofit Program	
Purpose:	Deliver energy efficiency retrofit services to affordable, multi-unit rental properties
Lead entity:	City
Partners:	Energy service companies, banks, city agencies, national nonprofits, local property owners
ARRA focus:	Energy Efficiency and Conservation Block Grants
Scale:	Citywide
Strategies:	Reflects a long-term regional vision; adopts multi-sectoral approaches; catalyzes market and private investment; employs information management, data, and benchmarking

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Chicago's new Multi-Family Energy Retrofit Program draws on multi-sector collaboration, with an emphasis on private sector involvement supported by public and nonprofit resources. Essentially, the program applies the model of private energy service companies (ESCOs), long-used in the public sector, to the affordable, multi-family housing market. In this framework, ESCOs conduct assessments of building energy performance, identify and oversee implementation of cost-effective retrofit measures, and guarantee energy savings to use as a source of loan repayment.

Currently, four large ESCOs have agreed to partner with the program, and four banks, in the process of drafting program-specific contracts, are arranging a total of $5 million in loans. An established city-wide community development finance institution will underwrite and service the program's retrofit loans, which carry market interest rates and up to 7-year terms. To alleviate the lending concerns of the banks, which may be wary of working in the ESCO-model with affordable multi-family property owners, a pool of funds will serve as a loan loss reserve equal to 50 percent of the loan amount for the term of the loan. Also, a portion of the city's stimulus funds—$500 thousand from the Energy Efficiency and Conservation Block Grant (EECBG) program—goes toward a total $2.5 million of gap funding, in the form of grants, to cover any difference between the loan amount and the total cost of the project. Other partners involved in the program, including the mayor's office, the city's environment and community development agencies, JP Morgan Chase, Community Investment Corporation, the Clinton Climate Initiative, and Enterprise Community Partners, play important roles conducting outreach, identifying potential participants, raising capital, contributing to the loan loss reserve pool, and financing facilitation and technical assistance.

With its new retrofit initiative, the city is taking advantage of the recent, relatively flexible stimulus EECBG funding to experiment with a model that tackles one of the toughest program design challenges in building energy efficiency: including low-income renters. If successful, the city views this pilot as having the potential of being replicated widely to expand retrofit financing and delivery to previously untapped markets. To boost the chances of success, several strategic screens on participant selection have been set up to lend the program greater credibility with its partners and further confidence that chosen participants are best suited to the program's scope and most likely to follow through on its commitments. To that end, all the property owners in the program must be experienced, manage at least 100 units of affordable rental housing in one or multiple buildings that are in good physical and financial shape and reside within city limits. Specifically, property owners must contribute ten percent of the cost of their retrofit building improvements, maintain a 1.15 debt coverage ratio, be current on all past debt obligations, and have vacancy rates of no more than seven percent. In addition, for ease of operations, the program seeks properties where the owner (not tenants) pays for all or some of the utility bills and will support retrofit measures for energy, natural gas, and water services, as appropriate. Further, none of the supported retrofit measures require tenant relocation.

The program is an offshoot of the city's broader sustainability framework, the Chicago Climate Action Plan 2020. To advance the plan's goals of retrofitting hundreds of thousands of homes over the next decade, the city had been considering an ESCO-type model for multi-unit rental buildings for over a year, and a few months prior to the ARRA legislation conducted a "pre-pilot" of this model with just one property owner retrofitting 320 units. With the benefit of lessons learned from the "pre-pilot" and added resources from the stimulus, the city is launching the current program at a greater scale, aiming to retrofit 5,000 affordable units in 12 months (to start once the bank documents are finalized). To date, the program has engaged with 20 property owners, selected ten to participate, and is moving two of them through the process.

The Implementing ARRA Series

America's current economic crisis is not only a national crisis. It is also a metropolitan crisis. Therefore, it is critical to monitor the progress of creative metropolitan leaders who are leveraging the myriad resources provided by the $787 billion American Recovery and Reinvestment Act of 2009 (ARRA). To that end, the Metropolitan Policy Program's Implementing ARRA Series is tracking the implementation work of metropolitan leaders, assessing their progress and struggles, and extracting from the innovators' experiences ideas for short- and long-term federal policy reforms. Ultimately it is hoped the series will serve as a resource for best-practice exchange among regions and a source of ideas for designing the next generation of metro-friendly federal policies.

For More Information

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