



**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**  
WASHINGTON, DC 20410-8000

**JUN 12 2014**

**MEMORANDUM FOR:** All Multifamily Hub Directors  
All Multifamily Program Center Directors  
All Multifamily Operations Officers

**FROM:** Benjamin T. Metcalf, Deputy Assistant Secretary  
for Multifamily Housing Programs, HT

**SUBJECT:** Better Buildings Challenge Multifamily Partner Incentive:  
Expedited Reserve for Replacement Account Releases to Support  
Energy and Water Savings

The Department of Housing and Urban Development, in partnership with the U.S. Department of Energy and the White House, expanded the Better Buildings Challenge (BBC) to include multifamily residential buildings in December 2013. BBC Multifamily Partners have made a commitment to reduce their portfolio energy usage by 20 percent within 10 years. The Office of Multifamily Housing Programs has established the Expedited Reserve for Replacement Account Releases policy incentive to help participating Owners quickly access the reserve funds needed to fund energy and water efficiency improvements.

**PART 1: ELIGIBILITY**

Participation in this incentive is limited to Multifamily properties that are part of an identified BBC Multifamily Partner's portfolio. All requests submitted under this guidance must include a print out of the Partner's profile page from the Better Buildings Challenge website (<http://www4.eere.energy.gov/challenge/>) and a short description of the applying entity's relationship to the Partner. Please see Appendix A for instructions on accessing the Partner's profile page.

A property is not eligible for expedited Reserve for Replacement releases under this memorandum, if there is a Section 8 Housing Assistance Payments (HAP) contract at the property, where the underlying regulation is 24 CFR Part 883 (Part 883 properties), and the contract is with the State Agency (i.e. the State Housing Finance Agency). Part 883 properties require that reserves are held by the State Agency, other mortgagee, or trustee for bondholders, as determined by the State Agency, and may be drawn from the reserve and used only in accordance with State Agency guidelines and with the approval of, or as directed by, the State Agency. The State Agency may elect to provide expedited processing for Reserve for

Replacement Account releases for properties in a BBC Multifamily Partner's portfolio in accordance with this guidance.

This guidance does not modify or replace current Department policy on releases from the Reserve for Replacement account for non-BBC Multifamily Partners.

## **PART 2: ELIGIBLE CAPITAL IMPROVEMENTS**

Owners of properties in an identified BBC Partner's portfolio may request expedited processing of Reserve for Replacement Account release requests to facilitate improvements that will contribute to their goal to reduce usage of energy and water utilities. To qualify for expedited processing, these requests must meet one of the below requirements:

**Path One:** The improvements are identified in the project's current Green Capital Needs Assessment (CNA), also known as a Green Physical Condition Assessment (PCA). For the purposes of this guidance, Green CNA is defined as a standard that offers "traditional" and "green" components, is supplemented by an energy audit, and includes a utility consumption baseline; or

The improvements are identified and on schedule with the project's current Project Capital Needs Assessment (PCNA) and exceed code requirements and contribute to achieving energy and water savings at the property (e.g. the boiler is scheduled to be replaced and the Owner opts to replace the boiler with one that exceeds code requirements and will help realize energy and water savings).

**Path Two:** The request is outside of the schedule of the Green CNA or PCNA, but the improvements are intended to generate energy or water savings to help meet BBC goals, subject to the Department's approval (see below).

## **PART 3: APPLICATION PROCESS**

**Path One:** For those requests that correspond with the schedule defined in the Green CNA or PCNA (exceeding the standard code requirements for energy and water efficiency purposes), the Multifamily Hub/Program Center (Multifamily Hub/PC) Project Manager assigned to the project will review release requests to ensure the request corresponds to the Green CNA or the PCNA. If the request corresponds to the PCNA, the Owner must demonstrate that the repair or replacement exceeds code and is an improvement intended to achieve energy and water savings at the property. **Requests must be accompanied by a print out of the Partner's profile page from the Better Buildings Challenge website (<http://www4.eere.energy.gov/challenge/>) and a short description of the applying entity's relationship to the Partner.** Please see Appendix A for instructions on accessing the Partner's profile page.

Under Path One, the Multifamily Hub/PC Project Manager will process the release request and respond to the lender within seven business days of receipt.

**Path Two:** If a release does not correspond with the schedule defined in the Green CNA/PCNA, Owners may request an off-schedule release for an improvement that will generate energy or water savings, provided the Multifamily Hub/PC finds the item contributes to meeting BBC goals. For approval of such a request, **an Owner must complete and submit documentation for the following three activities:**

- (1) Conduct a reserve analysis to ensure adequate funding for the continued capital needs of the property as delineated in the PCNA or Green CNA;
- (2) Demonstrate through a good faith effort that the measure facilitated by the reserve release is expected to lower the property's energy and/or water consumption from average pre-implementation usage (based upon an average of previous 24 months' utility usage data). This can be accomplished through the following actions:
  - a. **Modeling/software analysis.**
    - Submission requirements: Include a summary of the pre/post-implementation analysis and identify the software/system utilized.
  - b. **Third party analysis.**
    - Submission requirements: Include a summary of the pre/post-implementation analysis and identify the third party that conducted the analysis.
  - c. **Select a measure based upon the Basic Qualifying Green Capital Improvements list** (see Appendix B).
    - Submission requirements: Identify the basic qualifying green capital improvement(s) on the HUD Form-9250.
    - For a release for eligible Renewable Energy Improvements, the Department encourages additional due diligence on the part of the Owner prior to requesting a release. The Department recommends that Owners complete an analysis similar to the Application Package and Risk Assessment Checklist (see Appendix C).
- (3) Submit a print out of the Partner's profile page from the Better Buildings Challenge website (<http://www4.eere.energy.gov/challenge/>) and a short description of the applying entity's relationship to the Partner (see Appendix A).

Under **Path Two**, the Multifamily Hub/PC Project Manager will process the release request and respond to the lender within 15 business days of receipt.

For both Paths One and Two, Multifamily Hub/PC staff will use the standard Reserve for Replacement release policy (see Handbook 4350.1) and HUD Form-9250 for notifying the mortgagee and mortgagor of their decision and authorizing the release of funds. The Multifamily Hub/PC Project Manager should enter "BBC-Related Reserve Release" into the comments field of the Reserve Tracking, Request for Release of Funds Detail screen in iREMS (see Appendix D). Upon approval, Multifamily Hub/PC staff will also provide the Office of Multifamily Housing Programs in Headquarters ([MFHBBC@hud.gov](mailto:MFHBBC@hud.gov)) a copy of the HUD Form-9250 for

tracking. All questions regarding pending reviews or decisions shall be directed to the appropriate Multifamily Hub/PC office.

The Office of Multifamily Housing Programs will provide Multifamily Hub/PC staff with training on the expedited processing of Reserve for Replacement Account releases for projects within the portfolio of a BBC Partner. All approved requests must be signed by the Supervisory Project Manager, Operations Officer, or Hub/Program Center Director or designee.

If the energy and water savings associated with retrofits fully or partially funded by an expedited reserve release under this incentive are expected to exceed 20 percent, the Department encourages Owners to submit these projects as Showcase Projects under the Better Buildings Challenge. Please work with your Better Buildings Challenge Account Manager to develop the Showcase Project.

The Department will continue to evaluate this policy and will make adjustments as needed to support the goals of the BBC. Specifically, the Department is requesting feedback on the content and implementation of this incentive as it pertains to:

- Additional improvements, beyond those identified in Appendix B: Basic Qualifying Green Capital Improvements, that could be eligible for an expedited reserve release to achieve BBC goals.
- The timeframe for review and approval of expedited reserve for replacement requests for properties within a recognized BBC portfolio.

All feedback should be sent to the attention of Lauryn Alleva at [MFBBC@hud.gov](mailto:MFBBC@hud.gov).

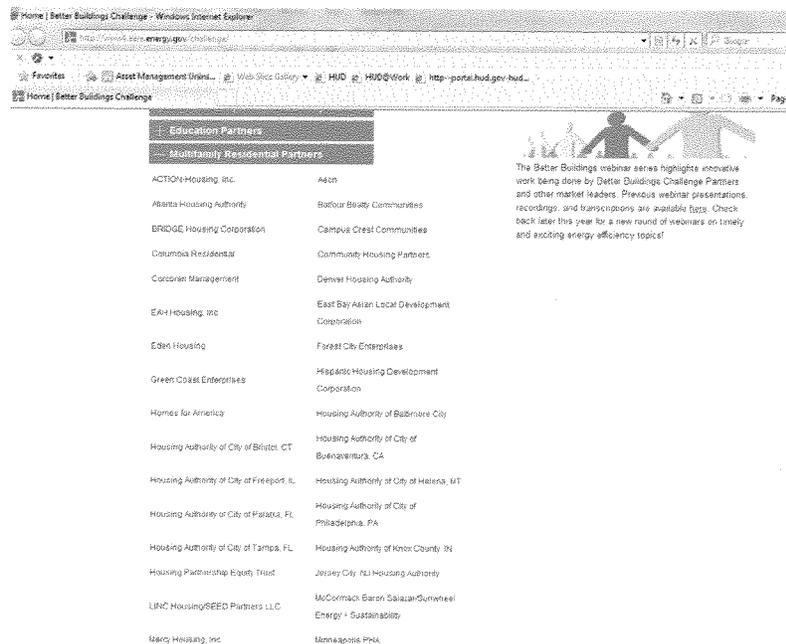
Attachment(s)

## Appendix A

1. Navigate to the Better Buildings Challenge Homepage <http://www4.eere.energy.gov/challenge/>:



2. Scroll down to the Multifamily Residential Partners' tab:



3. Find and click on the BBC Multifamily Partner's name:



4. Include a short description of the applying entity's relationship to the BBC Multifamily Partner.

## *Appendix B*

### **Basic Qualifying Green Capital Improvements Applicable to BBC Multifamily Partners: Expedited Reserve for Replacement Account Releases Policy to Support Energy and Water Savings**

This Basic Qualifying Green Capital Improvements list is intended to help BBC partners identify measures that qualify for expedited processing of Reserve for Replacement Account release requests. These measures are broadly categorized, with examples rather than explicit descriptions and requirements, giving Owners the flexibility to select specific measures based upon their particular building characteristics, while also taking into account regional market and climate conditions.

#### **Definitions**

- (1) **Green Capital Improvements** are designed and intended to reduce building energy and water usage and costs.
- (2) **High efficiency** includes equipment that is Energy Star labeled, is qualified for utility rebate, and/ or provides cost-effective efficiency gains as compared to existing equipment.
- (3) **Renewable Energy Improvements** eligible for this policy are limited to a) Solar Photovoltaic systems (PV) and b) Solar Water Heater systems. Requests to use the Reserve for Replacement Account funds for other renewable energy improvements – such as geothermal or wind, for example – will be considered under the standard review policy.

#### **Requirements**

Where applicable, installed Green Capital Improvement(s) shall meet or exceed the following standards:

- ASHRAE/IESNA 90.1-2007
- International Energy Conservation Code (IECC) 2009
- State and Local Codes

#### **Limitations**

Properties operating with a current Green CNA are strongly encouraged to rely on the Green CNA for the schedule and nature of reserve release requests. Although not required, the Department recommends that Owners interested in identifying appropriate Green Capital Improvements consider an energy audit for their property, or pursue a Green CNA if their current CNA is approaching 10 years old.

For any scope of work not associated with the building's overall mechanical system or building envelop, the **improvements must be made building-wide**, to all applicable units (i.e., all lighting must be replaced where there is an opportunity to improve performance, rather than replacing lighting in select units or in an ad hoc manner) or in all common areas, as applicable. Note: if some of the improvements have been made on an ad hoc basis previously, the work does

not need to be re-done to meet this building-wide guidance. Furthermore, this policy is not intended to cover routine maintenance (items less than \$500, plumbing and miscellaneous repairs included under the maintenance budget).

### **System Controls**

- Lighting controls (e.g., timers, occupancy sensors, bi-level, daylight sensors)
- HVAC / DHW controls (e.g., staging, modulation, outdoor temperature reset, DHW priority)
- Programmable thermostats
- Exhaust ventilation controls in parking garages

### **Mechanical Systems**

- High efficiency heating plant, central or individual (boiler, furnace)
- High efficiency cooling plant, central or individual (chillers )
- High efficiency ventilation plant, central or individual (fans, ECM fan motors)
- High efficiency domestic hot water plant, central or individual
- High efficiency pumps and fans for HVAC distribution systems, including variable frequency or variable air volume
- Duct sealing
- Pipe insulation
- Hot water tank insulation

### **Building Envelope**

- Air sealing
- Attic / roof insulation
- Wall insulation
- Foundation insulation

### **Lighting**

- Replace incandescent with CFL or LED bulbs
- Replace T12 linear fluorescent bulbs with HPT8 or lower

### **Appliances**

- Replace non-Energy Star appliances with Energy Star appliances (e.g., washers, dryers, refrigerators, dishwashers, dehumidifiers, air conditioners, vending machines)

### **Water**

- Low-flush toilets or dual flush toilets
- Toilet flappers
- Toilet water diverter
- Low-flow showerheads and aerators

### **Other**

- Energy Audit
- Measurement & Verification (M&V)

**On-Site Renewable Energy**

Owners are encouraged to conduct an analysis similar to the *Sample On-Site Renewable Energy Checklist* - see Appendix C. Completion and submission of any additional analysis, such as the document in Appendix C, is not required and will not be collected. It is an optional tool intended to assist Owners in better understanding the costs and benefits associated with their proposed Renewable Energy Improvement.

- Solar photovoltaic (PV) system
- Solar water heating (SWH) or solar hot water (SHW) system

Appendix C

Sample On-Site Renewable Energy

\*\*\*SAMPLE ONLY\*\*\*

PROJECT SUMMARY			
Property Name			
Address			
City/State/Zip			
Building Information	Building Type: __Low-rise; __Mid-rise; __High-rise No. of Units: ____ No. of Bldgs: ____	Electric Service <input type="checkbox"/> Master Meter <input type="checkbox"/> Individual Meter	Natural Gas Service <input type="checkbox"/> Master Meter <input type="checkbox"/> Individual Meter
Renewable System Size	_____ kW (DC Nameplate Rating) Other: _____		
Renewable System Type	<input type="checkbox"/> Solar PV <input type="checkbox"/> Solar Thermal	<input type="checkbox"/> Wind <input type="checkbox"/> Other: _____	
Location of Renewable System	<input type="checkbox"/> Rooftop <input type="checkbox"/> Carport	<input type="checkbox"/> Ground <input type="checkbox"/> Offsite	Other: _____
Areas Served by System	<input type="checkbox"/> Common Area: _____%	<input type="checkbox"/> Tenant Units: _____%	
Estimated Production	<b>First Year</b>		<b>Total</b> (Contract Term/Useful Life)
	_____ kWh _____ Therms Displaced		_____ kWh _____ Therms Displaced
Energy Demands Offset by System (%)	<b>Common Area</b>		<b>Tenant Units</b>
	<input type="checkbox"/> Electric: _____% <input type="checkbox"/> Gas: _____%	<input type="checkbox"/> Electric: _____% <input type="checkbox"/> Gas: _____%	
Utility Metering Arrangement	<b>Type</b>		<b>Tariff</b>
	<input type="checkbox"/> Net Metering		Electric: \$0._____/kWh
	<input type="checkbox"/> Feed In Tariff		Electric: \$0._____/kWh
	<input type="checkbox"/> Virtual/Aggregated Metering		Electric: \$0._____/kWh
System Ownership Type (Select One)	<b>Property Owned</b>		<b>Third Party Owned</b>
	<input type="checkbox"/> Property Owner to purchase and own renewable system		<input type="checkbox"/> 3rd Party entity to install and own renewable system (Property Owner to purchase power or lease the system)
System Cost	\$ _____ Total Cost \$ _____ / per Watt (Compare with Market Data)		
Property Owner Initiated Funding/Financing for Renewable System	<b>Sources</b> (check all that apply)		<b>Amount</b>
	<input type="checkbox"/> No financing required		
	<input type="checkbox"/> Property Reserves/Receipts		\$ _____
	<input type="checkbox"/> Secured Loan		\$ _____
	<input type="checkbox"/> Unsecured Loan		\$ _____
	<input type="checkbox"/> Specialized Energy Financing (e.g. Commercial PACE, On Bill Financing/Repayment, ...)		\$ _____
	<input type="checkbox"/> Grant		\$ _____
<input type="checkbox"/> Other		\$ _____	

YES	NO	N/A	A. SITE ASSESSMENT
			<b><u>Asset Compliance</u></b>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. The property in compliance with applicable regulatory requirements/agreements.
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. The property is performing at an acceptable level. <input type="checkbox"/> Physical maintenance: REAC Score of at least 70% of maximum points for both physical and financial condition assessments <input type="checkbox"/> Financial performance: Occupancy, NOI, etc.
			<b><u>Site Conditions</u></b>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. The property is located in a suitable environment: <input type="checkbox"/> Local climate patterns suitable for operation of renewable system <input type="checkbox"/> Free of frequent natural hazards
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. Proposed location of installation within the property is appropriate. <input type="checkbox"/> Installed system will be free from obstructions (i.e. buildings, trees, or other objects) impeding estimated maximum performance. <input type="checkbox"/> Location allows safe access for performing maintenance on the system. <input type="checkbox"/> Location can be safeguarded against vandalism. <input type="checkbox"/> Installed system and supporting structures do not encroach on spaces used by tenants or pose any danger.
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5. The energy source (i.e. sun or wind) is reliably adequate for generating power for the system. (a) <u>Solar System Considerations:</u> <input type="checkbox"/> Solar systems on site can be orientated between south-east and south-west <input type="checkbox"/> Average annual solar irradiance at site is at least 4.5 kWh/mm/day (b) <u>Wind System Considerations:</u> <input type="checkbox"/> Installed wind structures will not have any adverse site environmental impact. <input type="checkbox"/> Average wind speed at 30' is at least 4 meters per second
			<b><u>Building Conditions</u></b>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6. The buildings supporting the installations are in good condition and structurally sound. <input type="checkbox"/> Installation will not require structural modifications to buildings (e.g. new roofing system) occupied by tenants <input type="checkbox"/> If structural modification is required, the work can be achieved cost effectively. <input type="checkbox"/> The buildings are free of any damages or immediate repair needs in installation area. <input type="checkbox"/> There are no seismic or wind load upgrades required. <input type="checkbox"/> There are no obvious signs of water intrusion or moisture damage in installation area.
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7. The timing of the installation is coordinated with other scheduled replacements/repairs to minimize conflicts. <input type="checkbox"/> Scheduled roof replacement/repair in proximity of the renewable system is complete or does not conflict with the installation and operation of the system <input type="checkbox"/> Scheduled equipment replacement in proximity of the renewable system is complete or does not conflict with the installation and operation of the system
			<b><u>Operations and Maintenance</u></b>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8. The property management and maintenance personnel have sufficient capabilities, skills, and training to oversee project and perform routine system checks and cleaning.

YES	NO	N/A	B. FINANCIAL ASSESSMENT	
			<u>Assessment of Energy Benefits</u>	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. The owner is provided with a schedule of the projected annual energy production generated by the installation for the contract period and/or useful life of the equipment.	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. The projected utility tariffs used for estimating savings are reasonable and realistic. <input type="checkbox"/> Utility cost escalators is <= 3% and/or; <input type="checkbox"/> Utility cost escalators are consistent with utility company projections	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. The installation will result in energy savings that financially benefit to the property. <input type="checkbox"/> Reduces property's operating costs/budget, and/or; <input type="checkbox"/> Reduces tenant utility costs/Allowances	
			<u>Energy Savings (kWh generated X Tariff)</u>	<u>Cost per kWh (System Cost/kWh Generated)</u>
			<i>First Year:</i> \$ _____	\$ _____
			<i>Total:</i> \$ _____	\$ _____
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. Net energy savings will increase property's residual receipts. <i>Amount if known (\$ _____ per year)</i>	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5. Net energy savings will decrease property's expense budget or tenant utility allowances. <i>Amount if known (\$ _____ per year)</i>	
			<u>Assessment of Financial Obligations</u>	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6. The property's reoccurring annual financial obligations for the installation is less than the cost savings offset by the installation?	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7. If there is a liens associated with the financing or contractual agreements for the installation, liens are subordinate to permanent or secondary mortgage obligations existing to the property. <input type="checkbox"/> Financial obligations for the installation are not secured by the property <input type="checkbox"/> Subordination Non-disturbance and Attornment (SNA) Agreement is in place	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8. If there are requirements for prior notice/approval by equity investors, lenders and servicers, prior notice/approval obligations have been fully satisfied. <input type="checkbox"/> Renewable energy project is not subject to prior notification requirement. <input type="checkbox"/> Required project notifications, reviews, and consent have been completed.	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9. If property reserves are used for the renewable energy project, does the property have a plan for repaying reserves used for the renewable energy project?	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10. If debt service coverage is dependent on the capture of utility cost savings or project budget or rent adjustments, does the property have an plan for capturing the savings or acquiring the needed receipts?	
			<u>Resource Leveraging</u>	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11. Does the financing of the installation of the system utilize Federal or State tax incentives for renewable energy investments.	
			<input type="checkbox"/> Federal Investment Tax Credits <input type="checkbox"/> MACRS Accelerated Depreciation	<input type="checkbox"/> State Credits <input type="checkbox"/> Other: _____
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	12. Does the renewable energy project make use of available utility incentives or rebates for the installations of renewable energy investments?	
			Source: _____	Amount: \$ _____/Watt

## Appendix D

Project Managers should record any BBC-Related Reserve Releases in the following area in iREMS:

Go to the Servicing screen, and then to the *Reserve Tracking* tab:

The screenshot shows the 'Reserve Tracking' tab in iREMS. It displays a 'Request for Release of Funds List' table with the following data:

Type of Request	Date Received	Amount Requested	Date Approved	Amount Approved
Reserve for Replacement	04/11/2013	144894.93	05/20/2010	144894.93
Reserve for Replacement	04/11/2013	86059.10	05/20/2013	86059.10
Reserve for Replacement	04/11/2013	144894.93	05/20/2013	144894.93
Reserve for Replacement	10/15/2012	86059.10	05/20/2012	86059.10
Reserve for Replacement	10/15/2012	108362.64	11/27/2012	108362.64
Reserve for Replacement	06/14/2012	440423.79	07/16/2012	440423.79
Reserve for Replacement	05/15/2012	119556.28	07/16/2012	119556.28
Reserve for Replacement	05/15/2012	68006.55	07/16/2012	68006.55
Reserve for Replacement	12/01/2011	265971.51	12/23/2011	265971.51

When entering the request for release details, note that this is a BBC-Related Reserve Release in the *Comments* section:

The screenshot shows the 'Request for Release of Funds Detail' screen in iREMS. The 'Comments' field contains the text: 'BBC-Related Reserve Release'.

Other details shown on the screen include:

- Type of Request: Reserve for Replacement
- Date Received: 04/11/2013
- Amount Requested: 144894.93
- Date Approved: 05/20/2010
- Amount Approved: 144894.93