Massachusetts Housing Partnership

Jan. 10, 2013

Energy Performance Improvement Program Guidelines

The Energy Performance Improvement Program (EPIP) offers additional financing to properties currently in the MHP portfolio for energy and water conservation building retrofits and health and indoor environmental quality improvements. The program aims to reduce and stabilize operating costs and improve building conditions. Only properties with existing first mortgage loans from MHP will be considered. For-profit and non-profit borrowers are eligible.

EPIP loan payments are sized to be supported by the projected energy savings from the energy improvements. EPIP loans are designed to complement other funding sources that may be available for energy efficiency and water conservation enhancements, including utility incentives (for example, the LEAN program). The program is designed to work with utility incentives for energy efficiency, so that the EPIP loan supports additional or complementary work that the utility incentives do not cover. The combination of these multiple resources allows for a deeper and more extensive retrofit plan.

New EPIP loans will be coterminous with the borrower's current first mortgage with MHP, and will have up to a 30-year amortization schedule. Most EPIP loans will be secured by the real estate collateral. Eligible projects must be in good standing with MHP and in compliance with existing first-mortgage loan covenants, including minimum debt-service coverage ratio and maximum loan-to-value requirements.

EPIP loan amounts will be influenced by the following factors:

- Debt service must be fully supported by the projected energy cost savings of the retrofit work.
- Loan amounts will be limited to the difference between the current outstanding balance on the first mortgage loan and the original balance of the first mortgage loan.

Additional information can be found at www.mhp.net/epip, including the following:

- Term Sheet
- Expression of Interest
- Requirements for Green Physical Needs Assessment and Contractor Qualifications
- Application

Application process

Expression of interest: To get started, contact MHP directly or complete an expression of interest form. After the form has been submitted, you will be contacted by an MHP representative who will discuss the specifics of your property, review pertinent program information and help to determine whether or not the property is a good candidate for EPIP financing.

Energy assessment, physical needs assessment, financing, planning and creating a retrofit plan: After submitting an expression of interest and an initial discussion with MHP, borrowers who are still interested in an EPIP loan will also be asked to sign up for WegoWise, a web-based service that allows users to store and track energy and water usage (water, electricity, gas and/or oil) at their buildings over time. This tool will be used to create a baseline for each building and will also be used to track progress following retrofit work and over the term of the loan.

One of the first things potential EPIP borrowers will need to do is have an energy audit conducted, followed by a physical needs assessment (PNA) that takes into consideration the energy audit in its findings. In order to ensure that a cost-effective set of measures are proposed, critical capital needs are addressed, and that the financed improvements are part of a well-developed multi-year capital plan for the property, MHP has developed a standard protocol for energy audits and green physical needs assessments that will be required for program participation: Requirements for Green Physical Needs Assessments and Contractor Qualifications. These requirements provide detail on the three major assessments that will need to occur prior to applying for an EPIP loan: an Energy Audit, a Physical Needs Assessment (PNA) that incorporates findings from the energy audit, and an Integrated Pest Management plan (IPM).

Most borrowers will be referred to and will be able to participate in the LISC/New Ecology Green Retrofit Initiative, a free program that provides an energy assessment as well as technical assistance in developing a financing package for energy efficient building improvements. MHP is working closely with LISC and New Ecology to ensure that the services provided through their Green Retrofit Program meet the EPIP requirements. Information on the Green Retrofit Program can be found on the program's website. For projects participating in the Green Retrofit Program, LISC/New Ecology staff will conduct the energy analysis, and will also assist with completing funding and financing applications, planning for the retrofit process, managing renovations and post-renovation monitoring.

Following the completion of the energy audit, borrowers will need to have a Physical Needs Assessment (PNA) commissioned. This analysis is not provided by LISC/New Ecology, but MHP will consider the use of replacement reserve funds for the PNA and any additional required assessments that are not provided through the Green Retrofit Initiative. If the property has a recently completed PNA/CNA (less than five years old), MHP will consider waiving the requirement for a new report. See the Requirements for Green Physical Needs Assessments and Contractor Qualifications for exceptions and waivers to these requirements.

Capital items identified in the PNA can either be incorporated as part of the scope of work under the EPIP loan or as part of a replacement reserve plan. The plan should include an analysis of critical items that may need to be addressed before the end of the first mortgage loan term and how they will be funded. The plan should also provide a more detailed 5-year capital needs and reserve analysis showing how the borrower intends to manage the capital repairs and costs for elements that will not be included in the proposed retrofit plan to be financed by the EPIP loan.

If your project is not eligible for the Green Retrofit Initiative, MHP may allow for the use of replacement reserve funds to pay for the energy audit, as well as the PNA and IPM. Borrowers not participating in the Green Retrofit Program are greatly encouraged to pursue additional funding sources on their own, including utility incentive programs and the Low-Income Energy Affordability Network (LEAN) program, if eligible. All energy audit and PNA providers must be pre-qualified by MHP. Borrowers should present a plan for the completion of these assessments prior to contracting for these services.

It is expected that the energy audit and PNA will be used to develop the retrofit plan that will be submitted in the application for funding. The retrofit plan must identify the work to be completed, the sources and uses of funds, and the potential utility savings from energy and water conservation measures. Requirements and limitations imposed on the scope of work by other funding sources should be detailed in the renovation plan submitted to MHP. Bid packages with plans (if needed) and specifications should be developed for portions of the work that will be completed by contractors.

MHP is collaborating with Boston Community Capital (BCC) on the implementation of the program. BCC is experienced in coordinating renovation plans and developing financing packages for energy efficiency improvements. For borrowers who will enter into agreements with BCC, BCC will be responsible for the creation of a draft renovation plan and financing proposal based on the findings from the energy audit and PNA, as well as the terms and current performance of the existing first mortgage. BCC will also provide a performance guarantee that mitigates the risk to EPIP borrowers in the event the energy conservation improvements fail to generate the projected usage reductions. MHP will be consulted during the design phase of the renovation plan to ensure that program conditions are being met and that any concerns MHP has can be addressed in the plan prior to a formal application. Renovation plans will be developed by BCC in consultation and coordination with borrowers. BCC's fee for its services will be $5,000 pursuant to an agreement between BCC and the borrower. If the plan is acceptable to the Borrower, this fee will be returned and the borrower-approved renovation plan will become part of the formal application to MHP.

Application & approval process: Once a retrofit plan has been generated, contractors have been selected, and costs and other sources have been finalized, the borrower may submit an application electronically to MHP by sending the application form and all required supplemental materials to the contact person identified in the application. These supplemental materials include, but are not limited to:

- Completed application
- A renovation/retrofit plan
- A copy of the energy audit
- A copy of the physical needs assessment (PNA)
- Copy of Integrated Pest Management (IPM) inspection report OR evidence of prior establishment of an ongoing IPM program
- A capital improvement and replacement reserve plan that addresses any pressing concerns identified in the physical needs assessment that will not be financed by the EPIP loan.
- Funding commitments or offer letters from other funding sources
- Financial schedules:
    - Energy use and cost reduction analysis
    - Development Budget (sources and uses)
    - Post-retrofit pro forma reflecting projected savings
    - Summary 5-year capital needs/replacement reserves schedule

Once the loan application and supporting documents have been submitted through the online application, an MHP representative will perform a completeness check within one week and will contact the applicant to confirm that the application has been accepted or to request additional information. MHP will review the proposed retrofit plan, the proposed funding sources including the EPIP loan, and the supporting financial schedules, PNA and energy audit. The savings assumptions and post-retrofit operating budget will be evaluated for reasonableness in supporting the proposed loan amount within the program terms. The PNA and energy audit will be reviewed to understand the extent to which the proposed Green Retrofit Plan and capital improvements plan address concerns and recommendations from the reports. Loans are subject to the approval of MHP's Board of Directors. Preliminary EPIP loan approval will take approximately 30-45 days from the confirmation of a completed application.

Commitment, construction and closing: Once a loan has been approved, MHP will issue a commitment letter. The EPIP loan will be documented as an increase to the first mortgage at construction closing. Although MHP will be the lender of record during renovations, funds will be sourced from Boston Community Capital (BCC), who will administer the loan. New Ecology/LISC will manage the construction process for energy-related improvements. Construction management for non-energy improvements may be needed on a case-by-case basis and will be determined between the Borrower and BCC. Interest will accrue on the loan through the construction period and a post-improvement performance monitoring period at a rate of 6 percent.

Once the renovations are complete, the post-improvement performance monitoring period will begin. The performance period will begin once the retrofit work has been completed and will last through at least one heating season. During this time, the project's performance will be evaluated against the targeted level of energy usage savings. The performance period is part of a risk-sharing agreement between MHP and BCC that reduces the risk to borrowers in the event that anticipated utility cost savings do not materialize following renovations. Although it is anticipated that energy reductions will be achieved, a portion of the loan amount may be reduced to a supportable level for projects that fail to meet the predetermined energy savings goal during the performance period.
For the purpose of calculating the potential reduction in the loan following the performance period, the EPIP loan will be considered in two parts: the performance-based portion of the loan and the non-performance-based portion of the loan. The performance-based portion of the loan is the amount used for energy conservation improvements that result in measurable reductions in utility costs. The non-performance based portion of the loan includes hard and soft costs associated with non-energy related improvements financed by the EPIP loan.

BCC's performance guarantee does not cover the non-performance-based portion of the loan. Regardless of the achievement of energy reductions, the non-performance-based portion of the loan will not be reduced.

In the event that the projected usage savings are not met, however, the performance-based portion of the loan may be reduced. As part of the renovation plan, projections will be made for reductions in usage based on the findings from the energy audit. Projected usage reductions will be determined separately for each of water, gas/oil and electricity based on the improvements to be completed and using historical energy usage (as applicable) to determine the baseline for energy usage prior to improvements. Achievement of energy usage reduction projections will be measured separately for each of the three categories (water, gas/oil and electricity).

If at least 80 percent of the usage reduction projection is met for each of the three utility categories, there will be no reduction in the loan amount. However, for each utility type that achieves less than 80% of the projected usage reduction projection, BCC will write the loan down to a level at which the debt service payments are supported by the actual reduction in energy usage. The reduction in the loan amount is limited to the performance based loan only, since the non-performance-based loan will remain in place regardless of post-renovation energy usage results. Exhibit A of this document provides an example of how this potential debt reduction amount is calculated.

Following the performance monitoring period, the loan (net of any reductions calculated during the performance monitoring period) will begin amortizing and regular monthly principal and interest payments will be due. The interest rate following the performance monitoring period will be determined in accordance with MHP's standard pricing for its first mortgage programs.

Closing requirements: MHP will require the borrower to execute such loan document amendments and to furnish such other documents and due diligence as it deems necessary to reflect and secure the EPIP Loan.

Reporting requirements: In addition to the reports already required under their first mortgage loan with MHP, EPIP borrowers are subject to the following requirements following loan closing:

- The borrower will need to maintain updated building-level energy usage information in the WegoWise energy tracking system for the entire term of the loan.
- The borrower will need to submit quarterly financial statements if they are not already obligated to do so under the first mortgage Loan Agreement.
- MHP may request additional reporting requirements in order to verify compliance with the terms of the EPIP financing.

Note: For EPIP worksheet example, see next page.

Energy Performance Improvement Program worksheet

Exhibit A: Performance-based Take Out Calculation Worksheet Example

utility type	current annual energy usage	projected annual energy usage after renovations	projected annual energy usage savings	usage measurement unit	projected cost savings based on usage savings	projected cost savings available for debt service	Maximum supportable debt per utility type	usage performance benchmark for full take out (80%)	Baseline Price per Unit
gas	8.00	5.00	3.00	BTU/SF/HDD	16,480.00	14,981.82	230,307.27	5.60	5,493.33
water	70.00	60.00	10.00	Gallons/BR/day	33,600.00	30,545.45	469,558.50	62.00	3,360.00
electric	6.40	5.00	1.40	kWh/SF/year	3,395.00	3,086.36	47,444.97	5.28	2,425.00
					53,475.00	48,613.64	747,310.74		

Permanent loan interest rate:	5.00%
Permanent loan amortization:	30
total performance-based loan	447,310.74
total Non-performance-based loan	300,000.00
TOTAL BCC LOAN	**747,310.74**

completed following performance monitoring period

utility type	actual annual energy usage after renovations	usage measurement unit	% of projection achieved	actual cost savings (using baseline utility prices)	cost savings available for debt service based on actual usage (using baseline utility prices)	maximum supportable debt (no change if 80% benchmark is met)	Reduction in loan amount
gas	7.00	BTU/SF/HDD	33%	5,493.33	4,993.94	76,769.09	153,538.18
water	62.00	Gallons/BR/day	80%	26,880.00	24,436.36	469,558.50	-
electric	5.28	kWh/SF/year	80%	2,716.00	2,469.09	47,444.97	-
				35,089.33	31,899.39	593,772.57	153,538.18

Performance-based loan total	447,310.74
Non-performance-based take out	300,000.00
loan reduction	(153,538.18)
TOTAL MHP TAKE OUT	**593,772.56**

*Minimum possible take out is 300,000.