



February 10, 2010

Honorable Shaun Donovan, Secretary
U.S. Department of Housing & Urban Development
451 Seventh Street, SW, Room 10000
Washington, DC, 20410

Re: HUD-Imposed Financial Disincentives for Making "Green" Capital Improvements

Dear Secretary Donovan:

I am asking for your immediate help to remove the financial disincentives HUD imposes on PHA's that make energy saving capital improvements. This situation can only be seen as ironic and frankly a little embarrassing for HUD, given all the pronouncements and guidance around the "greening" of public housing.

The problem: Financial disincentives for conservation at PHAs exist under HUD's Operating Fund formula because PHAs are not allowed to keep the long-term cost savings that result from making energy saving capital improvements. (PHAs do retain 100% of the energy savings the first year, 75% of the savings the second year, and 50% of the savings the third year. However after three years, the PHAs operating fund subsidy is reduced one dollar for every energy dollar saved.)

In other words, under the current formula, if PHAs are less energy efficient, they receive more subsidy. When PHAs decide to become more energy efficient, HUD keeps most of the energy savings. This does not make sense, Mr. Secretary.

When private property owners make energy saving capital improvements they receive direct and long term financial benefit in the form of rebates and permanently reduced energy costs. PHAs should too. PHA Boards and administrators are as motivated as any to do their part to become more energy efficient for the good of the planet. However PHAs should not be asked to do this important work without seeing a tangible benefit to their bottom line.

HUD currently has one incentive, where it allows housing authorities to retain the savings for 20 years, but only if they work with an energy services company (ESCO) or borrow money from a third party and use 75 percent of the savings to pay back the loan. Although this incentive has resulted in some excellent projects, it has had a relatively limited scope, is complicated and time consuming, has had difficulty reaching small PHAs, and is not attractive to fiscally conservative administrators who have a demonstrated track record of maintaining grade "A" properties with current funding.

What to do: My simple idea would be to adjust the Operating Fund formula to allow for a permanent sharing of the energy-related cost savings 50-50 between PHAs and HUD. This basic

concept recognizes that HUD also has a legitimate need and a right to share the savings from green investments...just don't take the savings in perpetuity.

PHADA and NAHRO have an excellent proposal of allowing housing authorities, on a voluntary basis, to freeze their utility rolling base consumption levels for 20 years, providing them with the biggest possible incentive to undertake energy conservation measures. HUD would benefit immediately from capping rolling base levels for agencies which opt for this incentive and taxpayers stand to reap significant cost savings at the end of this 20 year period.

The St. Paul PHA's recent contracting experience with the Recovery Act Competitive Grant funds illustrates our frustration with the current Operating Fund formula. On January 25, 2010 our Board of Commissioners accepted the staff recommendation to award contracts totaling \$275,000 to perform lighting upgrades at six public housing hi-rises (Cleveland, Montreal, Dunedin, Central, Neill and Ravoux Hi-Rises), housing 931elderly and disabled residents.

What struck me most in reviewing engineering information about this contract was the astonishing amount and fast pace of energy savings. First, we will receive a rebate through Minnesota's Center for Energy and Environment of \$101,165 for making these improvements. Second, the projected energy cost savings after these improvements are made is \$71,500 per year. (Current electric costs of \$105,487 minus projected costs of \$33,987 = \$71,500).


After subtracting the one-time rebate of \$101,165, these improvements pay for themselves in 29 months. I discussed this with our Finance and Maintenance Directors. I posited that because of this incredible "pay-back" and because we have 10 more hi-rises that could benefit from lighting improvements (we only received ARRA competitive funding for six of our 16 hi-rises), we should do everything possible with our other capital funding (CFP and NROB) to make these lighting improvements at the remaining 10 hi-rises. I was shocked to hear comments about our "real world"...that it does not "pay" for us to do this work other than being a good soldier in the fight against global climate change and that unfortunately, there is no permanent savings for the PHA.

Mr. Secretary, I urge you to correct this "unintended negative consequence" of the funding formula you inherited as soon as possible. If this requires a statutory change, then I pledge to work with the industry groups and your staff to produce a bill that is seen as a win-win by the Appropriators. However, we think you already have the authority to correct this problem administratively:

Section 1437g (e) (1) directs the Secretary to establish an Operating Fund including (G) the energy costs associated with public housing units, with an emphasis on energy conservation"

Please eliminate this unsound financial impediment to our shared goal of reducing energy consumption in public housing. Thank you for your time and consideration.

Sincerely,



Jon M. Gutzmann
Executive Director
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cc Sandra B. Henriquez, Assistant Secretary for Public and Indian Housing
David Lipsetz, Director of Strategic Planning
Tim Kaiser, Executive Director of PHADA
Sunia Zaterman, Executive Director of CLPHA
Saul Ramirez, Executive Director of NAHRO
St. Paul PHA Board of Commissioners
St. Paul PHA Senior Staff