



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-5000

MAR 4 2016

ASSISTANT SECRETARY FOR  
PUBLIC AND INDIAN HOUSING

Dear Executive Director,

HUD records indicate that you have debt relating to an Energy Performance Contract (EPC) associated with one or more of the public housing projects that your agency is converting under the Rental Assistance Demonstration (RAD). Per the RAD Notice (PIH 2012-32 Revision 2) this debt will need to be addressed prior to closing. The purpose of this letter is to provide guidance and instructions on submission requirements when converting a project covered under an EPC. Please review the information that follows carefully and take the necessary action to minimize risk of a delayed to RAD closings.

HUD's primary goals in reviewing submissions are to properly document the change occurring in the EPC through an amended EPC approval letter; to confirm that the amount of EPC debt to be paid off or assumed is, at a minimum, commensurate with the projected savings initially underwritten as part of the EPC approval; and, where applicable, to provide updated information to continue the EPC incentives. HUD reviews EPC debt pay off amounts to ensure that the project's conversion does not increase the risk of default on the remaining EPC loan and to determine if a higher payment is needed if the remaining, restricted EPC fails to meet EPC statutory and regulatory standards. The specific submission requirements and nature of HUD's review with respect to your EPC is determined by the scope of your RAD conversion:

- For a conversion that will remove from the public housing stock all of the units covered by an EPC at one time (including the conversion of multiple properties at once), the PHA will need to alert HUD of its intent to terminate the EPC and payoff or assume the EPC debt. The PHA will draft a letter from the Executive Director to the Field Office (copying the Transaction Manager and Energy Center) formally requesting HUD to end the EPC incentives at the time of conversion and describing the PHA plan to address EPC debt. After conversion, the Field Office will send a letter to note the termination of EPC incentives.
- For a conversion of an entire Asset Management Project (AMP) (i.e. a "full AMP conversion"), but where other public housing projects will remain under the EPC, the PHA will provide needed information so HUD's Energy Center can amend the EPC approval letter. Additionally, the PHA will need to identify the portion of the outstanding principal that is associated with that property, and to identify the manner in which that debt will be addressed for Energy Center review and approval.
- For a conversion of a portion of an AMP covered under an EPC (i.e. a "partial AMP conversion"), in addition to the above, the PHA will need to provide information to update the PHA's future Operating Fund subsidy for the portion of the AMP that will remain in public housing.

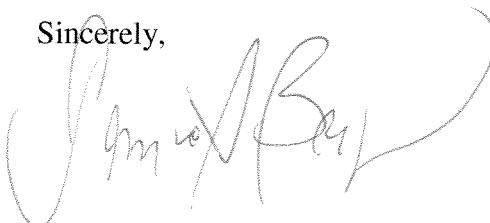
As a result, an important first step is to confirm the scope of what sites and developments are covered by the EPC by closely reviewing the HUD EPC approval letter, EPC financing documents, and contract with your Energy Services Company (ESCO) if applicable.

In any scenario, you will need to address the EPC debt associated with the property and propose and receive approval from the Energy Center prior to the submission of your Financing Plan so that your RAD transaction can be appropriately underwritten. Generally, PHA's can pay down the debt as part of the overall development budget or the debt can be assumed and debt service payments continued after conversion. You will want to consult with your EPC lender to scope out and weigh your options. Further, you may consider addressing all of your EPC debt at once in the conversion of your first project covered under the EPC if there are not contractual prohibitions. Doing so will remove the need for the Energy Center review process as well as eliminate the need to address the debt in future conversion, but it will also end the remaining EPC incentives. HUD's Energy Center will work with the PHA as necessary but expects that the PHA will first work with its ESCo before submitting its proposal to HUD.

If, after the conversion, the PHA will have public housing properties covered under the EPC, your submission to HUD's Energy Center should occur as soon after receipt of the Commitment to Enter Into a Housing Assistance Payments Contract (CHAP) as possible so the Energy Center can complete its analysis, amend the EPC approval letter, and approve the amount of EPC debt addressed so you can include an agreed amount of the EPC debt in your Financing Plan submission. To complete the analysis for the amended approval letter, the Energy Center will need a significant amount of documentation relating to the EPC, as identified in Appendix A. You are very likely going to need to engage your ESCo early and often to compile the necessary documentation. Reviewing your documentation and generating an amended approval letter may be a significant undertaking. Once you have provided a complete submission, the Energy Center is currently expecting to need between 30 to 45 business days to complete its review. After the RAD closing, the Energy Center will finalize the draft amended approval letter.

HUD has a committed team ready to assist with the resolution of the EPC debt for RAD conversions. If you have questions, contact your transaction manager or the Energy Center at [OFOEnergyCenter@hud.gov](mailto:OFOEnergyCenter@hud.gov).

Sincerely,



Jemine A. Bryon  
General Deputy Assistant Secretary for  
Public & Indian Housing

Enclosures: Appendix A  
RAD/EPC Frequently Asked Questions

## **Appendix A – List of Documentation Needed for Energy Center Analysis**

**\*Note: Where the PHA is paying off or assuming all of the EPC debt as part of the conversion, no submission to the Energy Center is needed. Instead, PHA will submit a letter to the Field Office as described above.**

Where following the conversion the PHA will have public housing properties that will continue to be covered under the EPC, the Energy Center requires documentation to update the EPC approval letter, much of which may be readily available from the existing HUD approval documentation. The PHA can expect to receive a clear list of needed documentation relevant to their circumstances following initial discussions with the Energy Center. Each RAD transaction and EPC may include circumstances where additional documentation is necessary to complete the analysis but generally the required documentation will include the following:

- a. Original HUD EPC Approval letter and all attachments (including all separate Phase approval letters).
- b. Original HUD cost summary sheet
- c. Revised HUD cost summary sheet to include:
  - i. Original projected (not M&V based) savings –based on approved rates (not current rates)
  - ii. Pro-rated installation, overhead, and profit costs-pro-rated based on the remaining term of the EPC- i.e., if the EPC was a 20 year approved EPC and there is 14 years left, then the installation, O&P would be prorated at 70% of those shown in the original HUD cost summary. The total remaining installation costs and O&P should be equivalent to the remaining loan balance; amortization schedule to confirm.
- d. PIC spreadsheet that is provided in the HUD format that lists unit data for each project included in the original contract and a revised PIC spreadsheet that is provided in the HUD format that lists unit data for each project that will be remaining in the contract after the first RAD conversion.
- e. A summary of the project costs noting in detail those project costs being removed from financing over the remaining term of the EPC for those units converting to RAD Project costs include:
  - i. Prorated installation, O&P for units converting to RAD;
  - ii. M&V costs for those units converting to RAD; # of years, annual amounts.
  - iii. Equipment replacement costs for those units converting to RAD; # of years, annual amounts.

- iv. Any other project costs that were approved by HUD (as shown in HUDs approval letter cash flow or the signed Energy Service Agreement (ESA)).
- f. For the PH units remaining in the EPC after RAD conversion, a summary of equipment replacement costs remaining over the revised term of the EPC broken out by HUD incentive. We need to calculate the percentage of replacement costs per HUD incentive (i.e. 30% Frozen Rolling Base, 25% Resident Paid Utility incentive, and 45% Add on subsidy).
- g. Original HUD approved cash flow and revised cash flow-
  - i. Original HUD approved cash flow from the HUD original HUD approval letter. If not contained in the HUD approval letter, than the cash flow from the signed ESA.
  - ii. Revised cash flow to include only those term years remaining in the EPC for those units remaining in PH. Savings to mirror the savings projected from the revised HUD cost summary form trued up for the approved inflation factor.
- h. Proposed or approved inflation factors used in the cash flow with BLS backup documentation to support same;
  - i. Original approved baselines on an AMP basis (or site basis if select sites from an AMP are measured using Option C M&V) and revised baselines for any savings measured using M&V option C-including a written narrative explaining all baseline adjustments from RAD sites being removed from the EPC. Must include backup (52722 or historical utility data from the baselines years) that supports the adjustments to the baselines since the original EPC was approved.
- j. Original and Revised pre and post utility allowance consumption and cost savings spreadsheet that supports the savings from RPU sites noted in the original and revised HUD cost summary sheet.
- k. Current year's M&V report.
- l. HUDs field offices validation of the M&V results reported by the PHA.
- m. Final signed Energy Service Agreement with all attachments and schedules in searchable PDF format.