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ACCELERATING A GREEN RECOVERY FOR LOS ANGELES:

# Pathways for Investing in Building Retrofits and Green Affordable Housing Development

*August 3, 2020*



**Key takeaways** from this Milken Institute-hosted roundtable that explored opportunities for a green recovery in Los Angeles and other US cities and featured leaders from government and the private sector:

- **Scale matters**—There must be an emphasis on “programs vs. projects” to create scale. Scale creates gravitational pull to attract leading partners and investors, reduces transaction costs, and creates lighthouse examples for others.
- **Simple is better**—Government leaders can streamline project development approvals, permitting, zoning, and modular construction inspections, and bring more cross-functional coordination among departments to improve private partners’ ability to move initiatives forward. They can also further solidify and formalize specific goals that must be met, thus driving a market response. A more straightforward process can also lead to greater standardization in technologies (i.e., charging infrastructure standards or modular bundles of building retrofit levers), which can drive down costs and timelines.
- **Break the mold**—In many respects, the mold was broken over the last six months; now is the time to think big and try new approaches. Energy efficiency has been around for decades, with marginal adoption despite often compelling economics. Taking the same tactics as in the past will not deliver the step-change in impact needed.
- **Leverage existing assets**—The fiscal outlook for governments is challenging, but cities and private partners across the ecosystem can leverage the assets cities already have to unlock capital sources. Whether it’s government land, revenues from a toll, or port concession, cities can facilitate opportunities for private partners to embark on marquee projects whose revenue can support other socially and environmentally important initiatives. Everything should be on the table.
- **Speed is critical**—We have a unique window of time to push for new solutions, and every week and month matters when you’re trying to deliver co-benefits for our society.

The COVID-19 pandemic has presented cities across the US with a generation-defining public health crisis. As of mid-August, Los Angeles County alone had reported [over 200,000 confirmed cases and a death toll topping 5,000](#). Beyond the human suffering and loss of life, the economic effects are staggering: The [unemployment rate in Los Angeles County for June was 19.5 percent](#). The pandemic has also laid bare the racial inequities related to physical and economic health (e.g., [Latinos in LA County are twice as likely to contract COVID-19](#)). As the medical community continues to work towards effective treatments and a vaccine, governmental entities and the private sector must come together to lay the groundwork for a recovery that delivers equitable economic, environmental, and social benefits for our communities.

The City of Los Angeles is looking to do just that, by facilitating a “green recovery” that addresses the COVID-19-induced economic downturn while also advancing the goals laid out in LA’s Green New Deal. Current economic conditions present significant challenges for municipalities like LA, through diminished tax revenue and growing pandemic-related costs. Green recovery goals can only be advanced by bringing together the public and private sectors to help catalyze meaningful investments that deliver co-benefits.

On Monday, August 3, 2020, the Milken Institute hosted a virtual roundtable, “Advancing a Green Recovery for Los Angeles,” providing a forum for discussing these critical issues and developing ideas for a viable path forward. The event brought together roughly 100 cross-sector stakeholders, including our thought partners at McKinsey & Company, for a panel discussion, moderated by **Los Angeles Mayor Eric Garcetti**. It featured an impressive panel of executives:

- **Barbara Humpton**, President and CEO, Siemens USA
- **Chris Leslie**, Global Head of Sustainability, Senior Managing Director, Macquarie Infrastructure and Real Assets
- **Valerie Smith**, Managing Director and Chief Sustainability Officer, Citi
- **Jacqueline Waggoner**, VP & Market Leader, Southern California, Enterprise Community Partners, Inc.

## Bold Ideas

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Mayor Garcetti challenged the panelists to articulate bold and innovative ideas that could help deliver a new green recovery era for cities. The panelists touched on several suggestions, including identifying existing successful programs that the city should double down on; focusing on initiatives that deliver co-benefits (economic, environmental, and social); tapping into the value of existing infrastructure assets to help fund the development of new projects; and acknowledging the future costs of doing nothing, letting those inform investment decisions today.

## Green Affordable Housing

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Panelists cited several examples of financing structures that provide environmental and social benefits, in addition to economic. Most notably, a recently closed transaction supported the development of 145 affordable housing units in San Francisco, where several public-private partnerships came together to deliver affordable housing units at a lower cost and faster completion rate than what is typical for that market. Some critical elements highlighted were the utilization of modular housing components, funding through municipal bond issuance, and financing made possible by the alignment of three different businesses within a major US commercial bank.

Grant resources were also identified as an essential component for successful affordable housing development, and the need to remove barriers that slow down projects and drive up costs. Most importantly, all capital strategies employed to develop green affordable housing need to be low-cost so that low-income residents do not bear the financial weight of these initiatives.

## Energy Retrofits

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Also discussed was the opportunity for city leaders to be programmatic in their approach to initiatives like energy retrofits for privately owned buildings and to bring together all relevant public agencies to realize efficiencies and avoid duplication of efforts. There is an appetite by large institutional investors to allocate funds to sustainable investments that deliver on co-benefits. Still, there must be an emphasis placed on the metrics and measuring the impact of projects.

Smart building technology was identified as a critical ingredient for achieving climate goals. Also noteworthy is that cities should use this unique moment of disruption to make a significant change and advance towards those goals. An example was given of one firm pursuing its own carbon-neutral goal in the US by providing landlords within their ecosystems until 2023 to initiate change or face a carbon tax, thus altering the business case by addressing policy framework.

## Breakout Group Insights

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Following the panel, attendees were placed into breakout groups to discuss two specific program concepts that the Milken Institute had identified as possible opportunities for creating new jobs while also advancing LA's environmental and social goals. One program concept addressed the redevelopment of underutilized land and the issuance of a green bond to support green affordable housing. The other looked at an energy retrofit program that would attract a critical mass of private building-owner participation by providing a menu of semi-standardized retrofit bundles, access to committed capital partners, and program coordinators to walk building owners through the entire process. Each breakout group was tasked with identifying challenges that the program concepts might face and potential solutions to help overcome those barriers.

Some of the key ideas identified by attendees discussing **green affordable housing** were related to program scope and zoning modification, as well as steps to entice investors and developers:

- **Program scope and zoning modifications**

- Look beyond building new green affordable housing from the ground up. Consider a two-pronged approach that also repurposes existing, but underutilized, retail and office buildings that are experiencing diminished demand because of the COVID-19 crisis.
- Explore the rezoning of single-family neighborhoods to accommodate dual or multi-family affordable housing

options, with potential for retail. For example, Oregon's House Bill 2001 allows for the development of duplexes and small multi-family buildings in areas previously zoned for single-family housing.

- Use LA's Transit-Oriented Community Incentive Program as a model for zoning changes that tap into underutilized land.
- Consider any excess land for affordable housing when the city is developing non-housing infrastructure projects, like a bridge or road project.
- **Attracting investors and developers**
  - Alleviate uncertainty for those interested in developing affordable housing by streamlining the approvals process for the proposed pieces of land and securing CEQA exemption.
  - Keep the request for proposals scorecard manageable so as not to dissuade interested parties.
  - Provide program and pipeline support via a coordinator to guide a project through parcel selection to construction.
  - Package projects and develop a proposal that defines an expected return to attract investors like pension funds.
  - Consider taxable municipal bonds to raise the needed funds to develop the desired housing. They would attract a segment of investors not traditionally interested in a tax-exempt bond offering (e.g., foreign investors). It is important to note that the interest paid by the issuer may be higher with a taxable municipal bond.
  - Bring in experts early on who can guide the qualification of a green bond or social bond.

Some of the key ideas identified by attendees discussing **energy retrofits for privately owned buildings** were related to program process and best practices, and establishing the right motivators for adoption:

- **Program process and best practices**
  - Utilize third-party organizations, active in this space, as a valuable resource for energy retrofit best practices and lessons learned.
  - Perform an audit of buildings throughout the city, identifying the principal buildings to retrofit. Worth noting is that this approach could delay program implementation.
  - Leverage mission-related investments to catalyze program investments.
  - Establish a project coordinator who can act as a concierge to address both the perceived and real transaction costs that are often barriers to building-owner participation in energy retrofit programs.
- **Motivators for adoption**
  - Create mechanisms that allow small businesses to invest in these retrofits (e.g., a commercial PACE program or on-bill financing through the LADWP), especially for low-income communities.
  - Increase funding for LADWP incentive programs to expand those programs with even more compelling incentives and low-interest loans.
  - Establish incentives and utility programs as first loss partners to share risk and catalyze private investment.
  - Engage with building tenants, not just owners, to find opportunities for smaller and workable energy-efficiency solutions within their spaces.
  - Work to align the incentives of building owners and tenants, addressing the split incentive problem where building owners are asked to make investments in energy-saving upgrades, but the cost savings flow to the tenant. Green leases or other instruments can be explored to alleviate this issue.
  - Increase energy efficiency project adoption in privately owned buildings by establishing strict building performance standards and providing meaningful enforcement mechanisms. Some energy efficiency projects that undertake deep levels of retrofits and de-carbonization may not be compelling investments across all building types based on economics alone.
  - Adjust the taxing structure to include a carbon tax to help achieve desired CO<sub>2</sub> reduction goals.

The Mayor's Office will take these concepts forward and continue developing them. Roundtable participants may be contacted for further conversations and events related to finance and the green recovery. Participants may also follow up directly with the Mayor's Office by emailing [dominique.hargreaves@lacity.org](mailto:dominique.hargreaves@lacity.org). We are grateful to all of the stakeholders and experts that shared their time and expertise.