

12 April 2024

RE: SF 4202

Dear members of the Senate Energy, Utilities, Environment, and Climate Committee,

On behalf of Phius Alliance Minnesota, I am writing to express our full support for SF 4202. Our organization represents a broad coalition of design, construction, and development professionals who are committed to supporting high-performance, passive-level building standards. We believe this legislation is critical to achieving Minnesota's statewide climate goals, while also providing for the health and wellbeing of Minnesotans.

That said, we bring the following points to illustrate why the code energy targets and rater reimbursement program established by this legislation are both necessary and appropriate:

Minnesota State Codes are not keeping pace with industry standards.

Minnesota's current residential energy code is based on the 2012 International Energy Conservation Code (IECC), which was adopted with weakening amendments that make its performance more similar to the 2009 IECC model code.¹ **This puts our current standard well over a decade out of date.** While our next code is set to bring the state back up to speed, longer-term goals – such as the 3-year code cycle and site energy target within the bill - are necessary to avoid falling into a similar pattern again. Minnesotans should always be able to trust that their new home is being built reasonably in line with the current national baseline.

Energy efficiency standards are not primary drivers of housing costs.

A common criticism of improved energy standards is an increase in housing costs, which in turn price out low and middle-income residents. While the current cost of housing is a concern, ULI Minnesota states that the **primary drivers of such Missing Middle housing are more accurately attributable to:**

- **Cost of land** (particularly in desirable market locations)
- **Cost of parking** (number of stalls required, and land needed for surface parking)
- **Local land use regulations**
- **Zoning restrictions on smaller, less dense developments** (i.e. duplexes and triplexes, compared to higher-density apartments)

In fact, the same report also warns that **focusing too heavily on cost containment to achieve affordability “may lead to higher capital expenditures in the future,”** specifically citing increased energy costs as a common expense that is simply passed on to the resident as soon as the project is completed. Affordability only confined to initial cost is not true affordability.²

Targets set by this bill are already possible today.

Perhaps most importantly, the energy targets established within this legislation are both impactful and reasonable. Assuming the 2021 IECC is adopted by early 2026, as is currently expected, Minnesota will have already achieved a 44% reduction compared to 2006 levels (U.S. Dept. of Energy). **This leaves only 26% remaining to reach the 70% reduction goal, spread over 12 years between 2026 and 2038.** Given that Phius-certified projects built today already meet and exceed this level of efficiency, that should provide more than enough time for the rest of the industry to achieve such results.

Reimbursement for energy ratings will provide equal opportunity access to incentive funding throughout the state.

¹ US Department of Energy - BECP Status of State Energy Code Adoption. See appendix.

² ULI Minnesota - “Missing Housing for Middle Incomes: Strategies to Reduce Cost and Add Affordability” (ULI Minnesota Housing Report, 2020–2021). See appendix.



The Department of Energy's Zero Energy Ready Homes (ZERH) program is not only a strong energy standard that reduces the lifetime emissions of a home, but also gives builders and homeowners access to incentives such as the 45L Federal Tax Credit (yielding \$5,000 per single-family home, \$1,000 per multifamily unit).³ **In addition to the energy savings throughout the life of the home, this is a significant opportunity to put money back into the pockets of consumers.**

However, access to rating services outside the metro area are currently limited, making this inaccessible throughout Greater Minnesota. The reimbursement program established within this legislation would go a long way toward leveling this playing field by paying for transportation, lodging, and other associated costs for out-of-town raters.

We sincerely hope that you will advance this bill for the benefit of our collective energy and climate future.

Signed,

Phius Alliance Minnesota

Jared Johnson, Policy Advocacy Lead
joh12514@umn.edu

Peter Schmelzer AIA CPHC, President
peters@kaaswilson.com

Alyssa Jagdfeld AIA CPHC, Vice President
ajagdfeld@salaarc.com

³ US Department of Energy – Zero Energy Ready Homes Program. See appendix.

Appendix:

1. U.S. Department of Energy. BECP Status of State Energy Code Adoption.

State	State Map Legend (As of Dec 2023)	State Codes	2006 IECC	2009 IECC	2012 IECC	2015 IECC	2018 IECC	2021 IECC	State Map Legend (As of Dec 2023)
		Site Energy Index (SEI)	SEI	SEI	SEI	SEI	SEI	SEI	
Minnesota	IECC_2012 with amendments	0.74	1	0.94	0.72	0.72	0.71	0.66	2009 IECC

<https://www.energycodes.gov/infographics>

<https://public.tableau.com/app/profile/doebecp/viz/BECPStatusofStateEnergyCodeAdoption/2021IECCStateCodeComparison>

2. “Missing Housing for Middle Incomes: Strategies to Reduce Cost and Add Affordability” (ULI Minnesota Housing Report, 2020–2021)

In reviewing case studies, several barriers were identified by the panel members that hindered their ability to deliver housing affordable to middle incomes, including:

- **Cost of parking**; particularly the number of parking stalls required and lack of space for surface parking.
- **Cost of land**; particularly in desirable market locations.
- Ability to reduce design and construction costs is **impacted by local regulations** that tend to add to the overall costs of a project.
- **Higher cost impact of standard zoning restrictions** on smaller, less dense developments.

Focusing too heavily on cost containment in order to achieve more rental affordability to the tenant today may lead to higher capital expenditures in the future. Substituting different materials and or systems that are less expensive does reduce costs initially. However, the tradeoffs could mean that there may be higher capital maintenance costs and a higher rate of wear and tear due to lack of durability and increased energy costs. Over time, it may result in higher costs to the owner; typically passed on in rent increases to tenants.

<https://minnesota.uli.org/uli-minnesota-releases-new-housing-report-missing-housing-for-middle-incomes-strategies-to-reduce-cost-and-add-affordability/>

3. U.S. Department of Energy – Zero Energy Ready Home Program

<https://www.energy.gov/eere/buildings/zero-energy-ready-home-program>

Section 45L Tax Credits for Zero Energy Ready Homes:

<https://www.energy.gov/eere/buildings/section-45l-tax-credits-zero-energy-ready-homes>

What is a DOE Zero Energy Ready Home?

A DOE Zero Energy Ready Home is a high-performance home that is so energy efficient that a renewable energy system could offset most or all the home's annual energy use. Each DOE Zero Energy Ready Home meets rigorous efficiency and performance criteria found in the DOE Zero Energy Ready Home National Program Requirements. Most types of new homes in the U.S. are eligible to participate in the DOE Zero Energy Ready Home program, and the homes are verified by a qualified third-party as part of the certification process.



Amended Section 45L

The Inflation Reduction Act of 2022 (IRA) amended Internal Revenue Code Section 45L to provide eligible contractors with a tax credit for eligible new or substantially reconstructed homes that meet applicable ENERGY STAR home program or DOE Zero Energy Ready Home (ZERH) program requirements. The new Section 45L provisions include two tiers of credits, with the higher credits for eligible homes and dwelling units certified to applicable ZERH program requirements. The 45L tax credit is \$5,000 for single family and manufactured homes eligible to participate in the EPA's **ENERGY STAR Single Family New Homes Program**[®] or the **ENERGY STAR Manufactured New Homes Program**[®], respectively, and which are certified to applicable **ZERH program requirements**. The 45L tax credit is \$1,000 for dwelling units that are part of a building eligible to participate in the EPA's **ENERGY STAR Multifamily New Construction Program**[®], and which are certified to applicable ZERH program requirements, unless the project meets prevailing wage requirements, in which case the 45L tax credit is \$5,000 per dwelling unit. The amended 45L tax credit applies to qualified energy efficient homes acquired after December 31, 2022, and before January 1, 2033, for use as a residence during the taxable year.