

## **Nursing Home Energy Efficiency/Disaster Preparedness Initiative**

### **PROPOSAL:**

DOH and NYSERDA are collaborating on an initiative with the NH Industry to develop public/private financing options aimed at improving both the energy efficiency and disaster preparedness of facilities serving the frail elderly. The Governor has advanced a very aggressive 10 year energy savings target, and it is believed that this initiative and the synergy of DOH, NYSERDA, major health care providers and private banks/investors working together, will further that statewide effort, as well as create new job opportunities for New Yorkers.

### **BACKGROUND:**

Governor Cuomo, in agreement with nine Northeastern and mid-Atlantic states, has set a goal to reduce energy emissions to 91 million tons by 2014, further declining by 2.5% per year through 2020. Moreover, the Administration has created many new programs and financing options and incentives to foster smart growth in this area.

The NY Green Bank is one of those new approaches. With \$1B in reserve, the NY Green Bank provides needed capital to fill financing gaps and make credit enhancements. It is estimated that these funds will create markets where they would not otherwise have existed and generate an 8:1 or greater return for NY.

Hospitals and nursing home energy costs are 2.5 times greater than that of the average commercial building. Often these 24/7 institutions, many of which are inefficient to operate and have exceeded their useful life, are the leading energy consumer in a community.

Hurricane Sandy and Storm Lee demonstrated how vulnerable these facilities are when faced with a major storm. There were 25 facilities that were off-line and many lost back-up power for days/weeks, putting significant stress on the delivery system and disrupting 3,683 residents.

The Department currently has in-house requests to either re-build or significantly modify several nursing homes at a cost exceeding \$1billion. Under the current capital system, the Medicaid program reimburses facilities for interest and depreciation/equity. The capital portion of the rate comprises roughly ten percent of total costs. The Department is considering approaches to minimize and restructure the "pipeline costs" to mitigate future year Global Cap pressure.

The Department and the nursing home industry has engaged in a survey process to determine those providers that have aged physical plants (>30 yrs) and consume significant levels of energy. While the results of this survey are not the only determining factors, it did reveal that approximately one third or 200 facilities consume significantly above average daily energy rates. These homes would be likely candidates to be among those considered for the Level I energy audits.

## **PUBLIC/PRIVATE FINANCING:**

There are 2 phases to this initiative which are expected to unfold over multiple years.

Phase I - (Statewide Energy Audit - 12 to 18 months). Under this phase NYSERDA through their FlexTech program will conduct Level I and Level II audits to determine which facilities might best be targeted for energy and disaster preparedness investment. While project selection criteria has yet to be determined, the Department is considering limiting participation to those homes with a capital life of greater than 25 years and who agree to NOT rebuild for another 15 years.

Phase II - (Establish Public/Private Energy Capital Financing Program) Financing this initiative will be a joint effort involving private financing from the capital markets, backed by state/federal Medicaid funds, with NY GreenBank potentially providing credit enhancement security. Under this phase, the following is envisioned:

The State working, with the Nursing Home Industry, will secure the best financing terms from large scale investors. Depending on the scope and number of interested homes, this financing could reach \$250M to \$500M.

The Medicaid program will pay its share of these costs (approx 70 percent over 15+ years), with the balance coming from the provider. Additional security will be offered to the lender by skimming the capital Medicaid funds to a specified account or making payment directly to the lender. To be clear this would not be State backed debt, but rather a unique cash flow measure that will help secure financing options.

NY GreenBank will dedicate a determined amount of funds (up to \$50M depending on scope) to secure the project. It is anticipated that these funds will be made available to pay lenders if there is a default situation and will help to secure overall lower financing costs.

Energy savings generated from these projects will be valued and homes together with the Department, will determine how these savings will be shared. There is Article VII language included in the 2015-16 Executive Budget to provide the Department this flexibility.

## **FISCAL IMPACT:**

The 2015-16 budget includes one-time \$2M (gross), from the Medicaid program, to cover energy audit costs, while NYSERDA has agreed to supplement these funds with an additional \$1M.

While the Medicaid Global Cap will have to absorb its share of the loan repayment costs, it is expected that this will be more than offset by avoidance of future capital "pipeline" costs that would otherwise occur. Moreover, there is the opportunity for the State to share in the energy efficiency savings once they materialize.

## **ADVANTAGES:**

This initiative will clearly reduce energy consumption rates and work towards meeting the state's energy emission goals.

The financing mechanism will rely on private bond and owner equity, with State/Federal Medicaid funds paying project costs over a 15+ year period. The consolidation of multiple projects under one or two lenders will diversify risk. The backing of the NY GreenBank will also work towards securing a more competitive loan arrangement.

Savings generated from these projects can be shared with providers, many of which have not received a trend factor in over 5 years.

The building and installation of solar panels and other fixtures and hardware will generate job opportunities. This might be a reason to focus projects initially in the Upstate region, where the job market is especially fragile.

