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TO: Interested Parties

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RE: Spurring Weatherization Investments in Rural America

The calculation for most families is pretty simple. They don't want to pay thousands of dollars upfront in weatherization costs to shave $35 off of their monthly electric bill.[1] The pay-off takes too long. The economy and jobs outlook is too tenuous. And many families—particularly those in rural areas where median incomes are lower—don't have the ready cash to make this investment given the other bills they face each month.

Below is an idea that would eliminate the upfront cost of weatherization at a tiny cost to the federal government. It would rely almost entirely on the private sector by using the reach and apparatus of rural electric cooperatives to implement the program. It would significantly reduce the energy consumption of millions of rural households, saving them billions of dollars. And it would create thousands of jobs.

In a nutshell, rural cooperatives would use a federal loan to finance moderately-sized weatherization projects for individuals and their homes. Homeowners would painlessly pay back the costs of the purchase and installation of their weatherization project through their monthly electric utility bills. There would be no need for them to borrow from banks, take out a line of credit on their home, or rack up a huge credit card bill. The loan would be painless because the homeowner's repayment would come from savings on their energy usage. Finally, the program will succeed because co-ops can keep contractors accountable and know which homeowners can be counted on to pay their monthly bills.

Spurring Weatherization Investments in Rural America

Rural areas have a disproportionate number of manufactured (i.e. mobile) homes and older homes that typically have poor insulation and inefficient heating, ventilating, and air conditioning systems. Manufactured homes use more than 60% more energy per square foot than their freestanding counterparts, and their share of rural homes is over 20% and growing.[2] Meanwhile, free-standing homes built twenty-five years ago use 60% more energy per square foot than new homes.[3] This inefficiency is why, despite smaller homes and cheaper electricity prices in rural areas, the average rural household spends $200 to $400 more on energy bills per year than a comparable urban household.[4] This disparity takes a real toll, since rural households earn $10,000 less per year than the national average and are less able to finance the upfront costs of energy improvements or to pay for them out-of-pocket.[5]

While the two major proposals before Congress that would help homeowners pay for efficiency improvements, "Cash for Caulkers" and PACE bonds, are important, there are challenges unique to rural areas that these measures do not address. "Cash for Caulkers" provides government grants or cash-based tax credits to homeowners to reimburse them for energy efficiency improvements.[6] As President Obama noted on December 8, this would provide a critical financial incentive for many homeowners to make needed efficiency improvements.[7] PACE bonds are low- or no-interest loans to homeowners that are paid back through a property tax surcharge rather than by direct homeowner financing.[8]

It is likely that these efforts alone will miss many rural homeowners, since they are less likely to have the savings to pay upfront improvement costs and are more likely to live in towns or counties too small to effectively finance PACE bonds.[9] This inadvertent exclusion of rural homes would unnecessarily limit the short-term jobs and economic benefits and long-term energy savings of widespread energy efficiency investments.

Provide Federal Support for Rural Electric Cooperatives to Finance Homeowner Weatherization Through the RUS

For more than 42 million Americans living in rural communities, rural electric cooperatives could play a major role in helping finance weatherization projects.[10] As non-profit, ratepayer-owned utilities, the co-ops' primary mission is to serve their consumers at the lowest possible cost. This means they have a significant incentive to help their ratepayers reduce energy consumption. They also have the capability to finance customers' efficiency improvements up-front, the data to determine which customers are good credit risks, the structure to distribute money quickly, and a reliable, property-tied repayment mechanism in the form of home utility bills. In addition, co-ops have on-the-ground management structures and local relationships to ensure contractor accountability and confirm improvements are installed as planned.

Known as "on-bill financing," co-op programs could make large amounts of financing available immediately to rural homeowners. In South Carolina, the national leader in on-bill financing plans, a proposed statewide program is projected to weatherize and/or retrofit 225,000 homes and create 4,618 new jobs by 2020, with 2,658 new jobs in place by the end of 2011. This would yield $166 million in annual energy savings statewide.[11] Successful pilot programs have been launched by rural electric districts in several states, including Virginia, New Hampshire, Arkansas and South Carolina.

Electric co-ops, however, do not have access to the money necessary to expand this program to a large scale—something the federal government could provide quickly and at limited expense.[12] Given the potential for immediate jobs impact, energy savings and emissions reductions, Third Way proposes a long-term, zero-interest federal direct loan program to capitalize coop-administered weatherization and retrofit programs across the country. A loan volume of $5.6 billion dollars at these rates would spur the weatherization of up to 1.6 million rural homes in

47 states over the next ten years, eliminating the need for new generating capacity to power 625,000 homes in coal-dependent areas and creating 34,000 new jobs by 2020, including 20,000 new jobs created by the end of 2011.[13] Such a federal program would enable consumer borrowing rates of less than 3%.[14]

This program would cost approximately $140 million annually for 10 years. The primary cost for the government would come from the cost of foregone interest on these zero-interest loans—roughly 20% of the weatherization program's loan volume.[15] The remainder of the costs would include upfront costs to seed a startup fund, the cost of additional staff to run the federal program, and a credit subsidy cost of less than 0.5% of the program's loan volume.[16]

The US Department of Agriculture's Rural Utilities Service (RUS) is well positioned to administer this program because it already has the experience and authority to issue loans to rural electric cooperatives.[17] While this authority is being used primarily to finance new electricity infrastructure, it also can be used to finance small energy efficiency projects and would not require a new federal office or expanding the authority of an existing office. With a large, distinct loan program to support on-bill weatherization programs, RUS could help co-ops get the necessary capital out the door quickly to rural homeowners—delivering quickly and efficiently the investments, jobs, and energy savings we need.

Endnotes

[1] http://www.realtor.org; http://www.solutionsforweatherization.com/2009/07/energy-efficiency-study-compares-builder-home-retrofit-and-deep-retrofit-efficiencies.html.

[2] http://www.ers.usda.gov/publications/rcat/rcat82/rcat82p.pdf; http://www.eia.doe.gov/emeu/efficiency/recs_5c_table.pdf.

[3] http://www.eia.doe.gov/emeu/efficiency/recs_5c_table.pdf.

[4] http://www.ers.usda.gov/Briefing/RuralDevelopment/Infrastructure.htm; http://www.mnn.com/earth-matters/translating-uncle-sam/stories/urban-or-rural-which-is-more-energy-efficient.

[5] "Co-op Consumers Average Household Income," National Rural Electric Cooperatives using EASI Data.

[6] http://www.nytimes.com/2009/11/18/business/economy/18leonhardt.html.

[7] http://www.nytimes.com/2009/11/18/business/economy/18leonhardt.html; http://www.whitehouse.gov/the-press-office/remarks-president-job-creation-and-economic-growth.

[8] This is the Property Assisted Clean Energy bonds program, where municipalities obtain private funding to finance municipal residents' home energy investments, which are paid back through an amortized surtax on the homeowner's property tax bill; http://pacenow.org.

[9] http://pacenow.org.

[10] http://www.nreca.org/AboutUs/Overview.htm.

[11] Schunk, Donald and South Carolina Electric Cooperatives; "Estimated Employment Impacts of SC Electric Cooperatives' *20 by 2020* Program," December 2009.

[12] http://ase.org/uploaded_files/5476/On-Bill%20Loans%20-%20Final.pdf.

[13] 1 MW of capacity running year-round provides enough electricity for 250 homes.

[14] Co-op administrative costs are projected to be no more than 2%, and surcharges of no more than 1% will fund a reserve against default.

[15] This figure is based on what the government would have received in interest payments instead.

[16] Electric coops have a long history of repaying federal loans on time, in part because less than 0.4% of electricity bills are lost through default. CBO scores credit subsidy costs at less than 1% for existing RUS finance programs for electric coops. Schunk, Donald and South Carolina Electric Cooperatives; "$750 million Loan Program Supporting Residential Weatherization and HVAC retrofit, 2010-2030."

[17] http://www.usda.gov/rus/electric.