

Debra Unger

From: Debra Unger on behalf of Darin Atteberry
Sent: Tuesday, April 15, 2014 12:02 PM
To: Fred Kirsch
Cc: Darin Atteberry; City Council; John Phelan; Robin Pierce; Kevin Gertig; Lisa Rosintoski; Mike Beckstead; Sarah Kane
Subject: RE: For Council packet 4/15/14 (Council SAR #25469)
Attachments: OBF issues and next steps.pdf

Good afternoon, Mr. Kirsch,

Thank you for your recent email concerning the City's on-bill financing program. Please see the following information provided by Energy Services Manager John Phelan on behalf of the City leaders:

~~~~~

I appreciate the information you provided to City Council comparing MidWest Energy's HouseSmart program to Fort Collins Utilities' on-bill financing pilot program. We both agree that creating a financing program that supports the varying income levels to achieve energy conservation is in the best interest of our community. As you point out, there are a number of questions staff will work to address as we manage the on-bill financing pilot program.

A few specific notes regarding your comments:

*"The current FCU program provides access only to those who have access to commercially available products. The failure to accurately identify the goal of the program is why the program is failing."*

Traditional banks and credit unions do not offer loan products for efficiency home improvement projects with relatively small loan amounts. Home equity loans are an option for many customers. The primary competition is contractor driven consumer loan products, which are generally not beneficial for the customer. One of the goals of additional outreach is to improve awareness amongst customers to counteract the contractor offered financing.

*"Fort Collins set out to create a program for people who were willing and able to **pay more for efficiency.**"*

The current program was designed to require no out-of-pocket costs, offer repayment on the utility bill and allow customers to choose the scope of work for their efficiency upgrades. Whether the result is a net reduction in utility bills is determined by each customer, based on the work they choose to complete. Customers can also avail themselves of free energy advisor services.

*"The rental market is ignored."*

Rental properties regularly take advantage of rebates of varying types, and rental properties are eligible for loans. However, Utilities acknowledges that the current program does focus on owners versus renters.

Some of the key issues can be addressed with Council action and setting of administrative rules by the financial officer, while other issues require additional research and review. These issues and next steps are described in the attached table.

Utilities continues to pilot the current program as directed by City Council in August 2013 and will be providing Council with a written review of the program this fall, including recommendations for improvements.

~~~~~

Regards,

Debra Unger

Executive Administrative Assistant
City Manager's Office
(970) 221-6266

[Click here to Tell Me About My Service ... I Want to Know!](#)

From: Gerry Horak
Sent: Tuesday, April 08, 2014 1:33 PM
To: Fred Kirsch; Darin Atteberry
Subject: RE: For Council packet 4/15/14

Fred

Thanks for the clarification. However, we need to address asap.

Gerry

From: Fred Kirsch [cforse.fred@gmail.com]
Sent: Tuesday, April 08, 2014 12:11 PM
To: Gerry Horak; Darin Atteberry
Subject: Re: For Council packet 4/15/14

Thanks Gerry. To be fair to John Phelan, I've been buggin the crap out of him about this and he isn't ignoring it, but the priority has been pulled to develop the energy policy update and GHG goals, and OBF requires the cooperation of Utilities, Legal, and Finance and there is only so much he can do with the other departments.

Fred Kirsch
Director
Community for Sustainable Energy
970-412-6295
www.cforse.org

On Tue, Apr 8, 2014 at 4:34 AM, Gerry Horak <ghorak@fcgov.com> wrote:
Fred

Thanks - look forward to the future installments.

Darin

Why can't we do what Fred suggests?

Thanks

Gerry

From: Fred Kirsch [cforse.fred@gmail.com]
Sent: Monday, April 07, 2014 8:08 PM

To: City Leaders

Subject: For Council packet 4/15/14

As promised here is the syllabus for my 3 minute lecture series on On Bill Financing: Please include this in the council packet for April 15, 2014.

4/1/14 - The Goal of OBF

The goal of a utility sponsored on-bill financing program is to **provide access to capital to those who don't otherwise have that access**. As Councilman Campana pointed out, we don't need a program that competes with banks. The current FCU program provides access only to those who have access to commercially available products. The failure to accurately identify the goal of the program is why the program is failing.

4/15/14 - Using OBF as a tool to lower energy bills

Making a home energy efficient results in less energy consumption and hence lower bills. The How\$mart program, pioneered by Midwest Energy in Kansas in 2007 and adopted by several utilities across the country, leverages this savings to finance the upfront capital required to make the home efficient, and generates a 10% net monthly savings to the customer.

They accomplish this by only financing products which will generate a net savings over the life of the product. Insulation, replacing old windows and appliances typically meet this requirement (solar is financed through a different mechanism). They stretch the terms out to 15 yrs at 3% interest rate and allow the financing to transfer from one customer to the next at the same address. This **creates a net monthly savings of 10%** and provides access to capital for renters and low income home owners, thus achieving the goal of a utility sponsored OBF program. They were able to do this by first asking the question, "How can we make energy efficiency as affordable as possible?" and then by systematically finding solutions to problems such as transferability between customers.

13% of their OBF participants are renters, the highest rate in the country.

The next lecture will focus on the steps we need to take in Fort Collins to create a program that saves customers money instead of costing them money.

5/6/14 - Steps to creating a net savings program in FTC

5/20/14 - 2248 Shropshire Ave, an example of what is and what could be.

TBD - Marketing a successful program

Attached: Doc submitted to Energy Board 4/3/14

Thank you!!

Fred Kirsch
Director
Community for Sustainable Energy
970-412-6295
www.cforse.org

Attribute	Home Efficiency Loan Program (current FC program)	On-bill Tariff	Next Steps
Payment	Loan repayment on utility bill, tied to customer or owner	Repayment on utility bill, tied to premise, transfers automatically to current customer	Determine the scope of necessary changes to billing system to enable obligation to be tied to premise only
Legal issues	Added language to FC Utilities City Code Section to allow for financing	Obligation of future customers to payments, bill neutrality guarantee from multiple utilities (FC electric, Xcel gas), closing agent qualifications	Initiate legal review
Business process	Utilizes module functionality within existing billing system	Estimation of bill savings for each proposed project	Research energy savings estimating software used by other programs (such as How\$mart). Evaluate billing processes with regard to move-in move-out notifications.
Term	Customer can choose between 5, 7, and 10 years	Generally 15-20 years	Determined by financial officer (administrative rules and regulations)
Interest rate	5% or 6% depending on qualifications	Lower than traditional residential loan products (bank or consumer)	Range of interest rates is by Council via rate ordinance. Current rate determined by financial officer (administrative rules and regulations)
Qualification	bill payment history, credit score (FICO)	bill payment history	Determined by financial officer (administrative rules and regulations)
Security	Utility turn-off for non-payment of bills, recording with county property records	Utility turn-off for non-payment of bills, recording with county property records	Same for both models, no change required

Fort Collins Utility's On-Bill Financing Program Missing the Mark

The purpose of a utility sponsored On-Bill Financing (OBF) program is to provide access to capital to those who don't otherwise have it. Utilities provide this service to reduce energy generation expenses, decrease environmental impact, cut monthly bills for customers, and creating more comfortable living and working spaces. It works by financing the capital costs of energy efficiency improvements to a building over time. A utility sponsored OBF program should be designed to be significantly different from commercially available products and targeted specifically to folks who don't have access to those products.

That target audience is primarily in the **rental market**, both commercial and residential. Energy efficiency in this market suffers from the "split incentive". The property owner controls infrastructure improvements but doesn't occupy the property or pay the energy bill and so has little incentive to improve efficiency. The occupant/bill-payer has incentive but doesn't control infrastructure. The result is that **36% our housing market and well over 50% of our commercial space is being ignored**. These buildings have single pane windows, 30 yr old appliances, holes in insulation, dirty ducts, air leaks, and are generally in worse shape than owner-occupied buildings. No one knows how much worse, but it is probably fair to assume that this market is where efficiency remodels can have the greatest impact on achieving the utility's goals. Low-income homeowners are in the same boat. It is not uncommon for elderly homeowners to be cold in their home because they can't afford to turn the thermostat up and they can't afford to insulate their house.

By improving efficiency in rentals we can accomplish more than the utility's stated goals. Typically, the lowest income residents live in the least efficient housing. We can lower bills and improve living conditions for those most in need. We can cut bills for small businesses that rent their space. We can hire local contractors to do the remodels. Money now spent on natural gas and coal could be **recirculated in the local economy** instead.

Utilities in a dozen states now offer OBF programs of some sort. Many of these are loan programs and are not significantly different from a commercial loan in either cost or availability. They do not serve low-income homeowners or renters. To address this problem, Midwest Energy, a rural electric association in Kansas, pioneered the "**How\$mart**" program in 2007. They have won five national awards and farmed their program out to utilities in KY, SC, and GA. Other utilities model that program, called an On-Bill Tariff because it is a "tariff", or line-item, on the bill rather than a loan. Midwest has completed roughly the same number of efficiency remodels as Fort Collins Utilities (over 900), and 13% are rental units. This is the best penetration into the rental market in the country. There is no upfront cost and the terms are structured so that each month participants save more on energy bills than they pay for the financing. Midwest says that the secret to their success is in generating a **net monthly savings** for the customer.

Community for Sustainable Energy, a Fort Collins based grassroots organization, has generated over 2,000 letters of request from citizen for OBF in Fort Collins since 2010. The 2010 City Plan calls for OBF to be implemented as a near term action no later than 2012 (p. 147, City Plan). In January 2013, Fort Collins Utilities (FCU) began a pilot program of an On-Bill *Loan* program. The program succeeds in putting loan payments on the utility bill, financing up to 100% of project cost, and securing the loan through electric service. Other than that, it is not significantly different from commercially available loans. One prominent realtor who specializes in “green” services doesn’t promote the Fort Collins program to customers because he says it provides the same service as a commercial loan, but costs the customer more through higher interest rates. **The goal of the pilot was to complete 30 projects within the first year. After 13 months, eight projects had been approved.** This pilot program is recognized by staff and council as a failure.

The key difference between How\$mart and the Fort Collins loan program is that How\$mart results in financial savings for the customer and our program doesn’t. This is the result of a fundamental difference in priority. Midwest set out to make efficiency as affordable as possible. Fort Collins set out to create a program for people who were willing and able to **pay more for efficiency**. This led to specific decisions outlined in the appendix.

FCU staff and management, City Council and the City Manager, and the Finance Director all agree that we should be serving our rental and low-income markets. They agree that we need to change our program and that the How\$mart program looks to be a better model, but **no one is taking action to create the needed change**. As it stands, the City considers this program, as defined in City Plan, to be completed. It is an action step that has been checked off the list, but it is an action step in name only.

Community for Sustainable Energy is asking the Energy Board to ask Council to direct staff to design an OBF program, modeled after the How\$mart program, that serves low-income homeowners and the rental market.

Appendix

How\$mart v/s FCU

How\$mart - <http://www.mwenergy.com/howsmart.aspx>
Designed to be as affordable as possible.

1. 0% - 3% apr based on cost of capital acquisition.
2. 15 yr terms, transferring from one customer to next at same address.
3. \$0.00 out of pocket costs, audit included.
4. Completely in-house, no loan officer or third party.
5. Customer monthly payment = 90% of estimated monthly savings.
6. Only projects that have a 15 yr or less payback period are accepted.
7. Loan program available for more expensive projects.

FCU - <http://www.fcgov.com/utilities/residential/conserv/energy-efficiency/financing>
Designed for people who are willing/able to pay more for efficiency.

1. 5%-6% apr, based on industry standard, not based on cost of program.
2. 10 yr terms, must be paid off at move out, does not transfer.
3. Renters are ineligible.
4. Out of pocket = \$60 audit, \$175 fees.
5. Sourced through EnergySmart Partners LLC. (costs \$175 per loan).
6. Monthly payment not tied to savings, usually pay more then save.

Suggested changes to OBF

1. Make OBF a tariff, not a loan – do away with 3rd party loan officer, allow transfer from one customer to the next at the same address.
2. 0% apr – There has been no rationale given for FCU interest rate. Could be ZILCH (like old loan program).
3. Stretch terms to match expected payback time of efficiency remodel plus 10% to create net monthly savings. Not to exceed expected life of project.
4. Fold audit and processing costs into tariff.
5. Make refrigeration eligible for program.
6. Tag with Title with notice of financing, not a lien.
7. Model after How\$mart.

Example

2248 Shropshire Ave, 80526
built in early 1970's
rented since 1996
Audit performed fall 2012

\$130 ave monthly energy cost (usage charges only)

Needs:

\$2000 Insulation & Weatherization
\$2000 Replace single pane windows and slider door
\$2000 Replace 40 yr old furnace
\$800 Replace 15 yr old refrigerator
\$600 Replace 40 yr old water heater
\$7,400 Total
\$6,000 After rebates

\$66.61 Monthly payment with current FCU program - 10 yrs at 6%

\$39.00 Monthly estimated energy savings (30%)

\$27.61 Monthly *cost* of participating in FCU program

\$27.00 Monthly payment with most affordable possible program - 18 yrs at 0%

\$12.00 Monthly savings *possible*

Resources

Midwest Energy - <http://www.mwenergy.com/howsmart.aspx>

Fort Collins Utilities - <http://www.fcgov.com/utilities/residential/conserves/energy-efficiency/financing>

South West Energy Efficiency Project report –

http://www.swenergy.org/publications/documents/Energy_Efficiency_Finance_Options_for_Uilities_Oct_2011.pdf

Fort Collins Council Work-session – 8/27/14

Fort Collins City Council Agenda Summary Item 24 – 4/17/12

Fred Kirsch

Community for Sustainable Energy

970-412-6295

fred@cforse.org

www.cforse.org