On-Bill Weatherization Financing

Vermont Housing Finance Agency

Homeownership: Home Improvement and Rehabilitation

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Vermont's Weatherization Repayment Assistance Program (WRAP) is an innovative on-bill financing model that allows homeowners and renters to eliminate or greatly reduce the up-front costs of home weatherization projects. Vermont Housing Finance Agency (VHFA) provides the upfront project capital, allowing WRAP customers to pay back costs over time through a charge added to an existing utility bill.

WRAP is intended to assist more low-to-moderate income households in enjoying the benefits of weatherization, including lower net-energy costs, increased levels of comfort, and improved health and safety in the home. WRAP seeks to lower the barriers to traditionally difficult to reach groups including renters and customers with poor credit, and advance equity while achieving Vermont's climate goals.

History of the program

According to Vermont's Energy Action Network, 34% of Vermont's greenhouse gas emissions come from the thermal sector, including homes and businesses. Vermont's housing stock is aging and inefficient, with over 26% of its homes built before 1940, compared to 12% nationwide. Due to Vermont's harsh winters, low- and moderate-income (LMI) households are often heavily energy burdened, with low-income households spending up to an average 18% of household income on utility costs.

The idea for WRAP originated with Vermont's Weatherization at Scale Coalition, a group of energy stakeholders that wanted to help meet the state's ambitious goal of weatherizing 120,000 homes by developing new ways to fund weatherization projects. The Coalition saw a need for a program that could serve households earning between 80-120% AMI who were not eligible for the state Weatherization Assistance Program (WAP) yet were unlikely to be able to afford the up-front project costs on their own. To reach the needed scale, it was clear that annual appropriations were not going to be feasible, therefore, the idea was born that a small upfront investment by the state could be expanded through financing approaches to be more fully self-sustaining program.

The Coalition approached VHFA to see if it could help launch a pilot program. Although VHFA has done some past homeowner energy lending, most of its recent work has been limited to funding energy-efficient multifamily rental housing development. However, VHFA was recognized for its financing expertise and its recent experience in launching emergency pandemic programs. VHFA recognized that weatherization was consistent with its core mission of assisting LMI households and expanding the state's housing opportunities.

In 2021, the Vermont Legislature appropriated $9 million to VHFA to develop a pilot program to promote weatherization, and expanded VHFA's statutory authority to operate an on-bill program. VHFA worked collaboratively with the State of Vermont's energy office, utilities, and other key stakeholders in designing WRAP. VHFA's research included household focus groups and an extensive review of weatherization financing programs nationwide.

VHFA worked with regulators and utilities to enact five identical tariffs to allow the utilities to collect on-bill payments through WRAP. These five utilities cover approximately 80% of the state of Vermont, and VHFA intends to continue outreach to the remaining providers to encourage them to join the program.

How WRAP works

WRAP allows Vermont households to pay for weatherization projects like insulation and air sealing as well as additional measures like heat pumps, advanced wood heating systems, and health and safety measures identified by contractors. VHFA uses state funding paired with utility incentives to cover up-front project costs. Households will pay back costs over time through a monthly charge on their utility bill. The WRAP charge on the bill includes the cost of the project, a 2% interest charge from VHFA, and a $3/month utility charge.

For the pilot, both renters and homeowners living in single family homes and small apartment buildings can enroll in the program. Although the program is open to Vermonters of all incomes, 75% of funding is targeted to households earning less than 120% of the area median income.

The program is administered through several Vermont utilities, allowing WRAP to leverage their experience working with customers and contractors, conducting project screening, and measuring emissions reductions. VHFA remains in the background to manage financing, partnerships, and long-term stewardship of the program.

WRAP's on-bill model is designed to overcome factors that have traditionally prevented moderate income households from weatherizing their homes. These include:

- *High upfront costs* – WRAP can greatly reduce or eliminate the upfront cost a household must pay.
- *Limited access to financing* – As opposed to a traditional loan, WRAP funding is considered an investment tied to the utility meter, and VHFA does not use traditional underwriting standards such as credit scores or debt-to-income ratios. WRAP's underwriting standard is for a customer to have a clean bill-payment history with utilities for 12 months preceding enrollment.
- *Multi-year payback* – WRAP projects may have a payback period of up to 15 years, which is typically a barrier if a customer (and particularly a renter) does not expect to occupy the residence for that length of time. However, since WRAP funding is tied to the meter, the customer is only obligated to pay the charge while they occupy the property. Once a customer moves, new occupants of the property will pay the surcharge for the time they occupy the property and benefit from having lower net energy costs.

WRAP was carefully crafted to ensure customer protection, including:

- *Positive cash flow requirement* – Estimated annual energy savings from the weatherization measures must exceed the annual cost of the WRAP repayment by at least 10%.
- *Term of obligation* – Based on the estimated savings, the term of the WRAP charge will be no more than 90% of the project's useful life. This helps protect against customers paying for benefits they may no longer be experiencing.
- *No service shuts offs or property liens* – Non-payment of on-bill WRAP charges alone will not result in service shut offs. Many other on-bill programs use shut-offs as a backstop against program losses. VHFA's research has suggested that the rate of nonpayment for other on-bill payments has tended to be very low, given that is attached to utility bills with customers with consistent payment histories; however, given its housing mission, VHFA was opposed to using this option for WRAP.

State funding for the program has allowed VHFA to bear the loss of all non-payments with no impact on its own finances. WRAP funds will revolve back into the program, although funds will not be fully recycled for up to 15 years. The pilot nature of the program will allow VHFA to better understand the risks in the model and develop new underwriting standards and/or program reserves if it expands WRAP with new funding sources.

More details about how WRAP works are available in the program overview developed by VHFA.

Outlook

VHFA has spent much of the time since receiving legislative appropriations in developing a program model and signing agreements with utilities. WRAP began accepting customers early this year. A small number of customers have signed up, with several dozen more on waitlists. VHFA expects the pace to increase soon as the program administrators finish onboarding approved contractors, and the program begins to market widely. VHFA expects the program to serve roughly 1,000 total households over two years, based on current estimates of project costs.

VHFA is already examining ways that WRAP could be expanded beyond the pilot, in ways that may be replicable for other HFAs. VHFA and the Program Administrator utilities received an $8.5 million Congressionally Directed Spending Award to fold comprehensive "whole home" efficiency projects into the WRAP model. VHFA expects that funds will be released by the U.S. Department of Energy this fall. VHFA has considered applying for USDA RD's Rural Energy Savings Program (RESP), which provides loans as low as 0% to entities that make energy efficiency loans to customers. The program is intended for rural utilities but also allows nonprofits like VHFA to apply.

VHFA is also exploring funding opportunities through the Inflation Reduction Act, especially the $27 billion Greenhouse Gas Reduction Fund (GGRF). The GGRF is intended to leverage private capital to finance clean energy projects, with a focus on low-income and disadvantaged communities and households. Although specific funding criteria will not be available until the EPA releases a NOFO this summer, WRAP initially appears to be a viable program to receive GGRF funds. In addition to receiving funds for weatherization from the GGRF, VHFA is also in initial discussions with its state energy office to explore the possibility of expanding WRAP to offer loans for household solar to take advantage of the $7 billion Solar for All portion of the GGRF.

Replicability

WRAP has emerged at a time when there is more funding than ever available for energy-related projects. HFAs have the opportunity to harness some of these funds to improve the housing that serves the low- and moderate-income households at the core of their missions. While creating a weatherization program requires significant time investment, particularly for HFAs that are not currently involved in substantial energy work, the on-bill model is worth consideration. It has been demonstrated to be adaptable to variety of contexts, and when property capitalized, is a fairly low-risk lending opportunity with immediate benefits for LMI customers.

Moreover, through VHFA's work with WRAP, we have developed and strengthened relationships with state energy partners, ensuring that our perspective on housing and equity needs is reflected in the ongoing discourse around solutions to our climate crisis.