

## Recommendation Number 2<sup>1</sup>

**Recommendation:** A residential moderate income energy efficiency program should be created to provide low interest financing for AE customers with moderate family incomes to weatherize their homes and to purchase energy efficient cooling and/or heating appliances. The loan amount needed under this program would be reduced through the use of rebates that are increased over the current level for the home performance with a loan program. The loan amount needed would be further reduced through prices for the appliances that are discounted through AE's use of bulk purchasing power. Provided, however, an AE customer with a moderate family income could access the higher rebates and the discounted-priced appliances without accessing the low interest financing.

**Targeted Underserved Group:** Low Moderate Income Homeowners (household income between 301 and 400% of the Federal Poverty Guideline.) However, once the program has been successfully implemented, the income eligible group would be gradually expanded to 200 to 400% federal poverty guidelines.

**Time Schedule:** Implement in 2016.

**Brief Description:** Provide access to reduced cost financing for comprehensive energy efficiency measures and for reduced priced cooling and heating appliances.

**Community Need:** According to the January 2015 Updated Energy Burden Tables for Austin Energy, 12.8% of all residential customers have income between 301 and 400% of the Federal Poverty Guideline.<sup>2</sup> Low and low moderate income consumers have lower credit scores<sup>3</sup> which may be attributable to their inability to obtain financing in the first place. There have been comments made to the task force that when air conditioners are not working in summer even low income families, in desperation, will purchase units with unfavorable financing terms such as high interest credit cards and car title loans.

**Program Description:** As part of the American Recovery & Reinvestment Act (ARRA), Austin Energy requested and was provided an ARRA grant to lower the cost of financing energy efficiency improvements to residential consumers. Financing costs were lowered by creating a loss reserve with Velocity Credit Union, the bank participating with Austin Energy to provide energy efficiency loans with reduced interest rates to residential customers. This energy efficiency program could increase Austin Energy's customers' access to affordable financing by lowering the credit worthiness standards for borrowing at lower interest rates with longer repayment periods.

A commonly applied credit worthiness standard is known as a FICA or credit score. For instance a loan applicant with a FICA score of 300 would generally be viewed as a high risk for a loan; a FICA score

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<sup>1</sup> Number will be assigned in final report.

<sup>2</sup> Memorandum from Liz Jambor, EdD, Manager, to Low Income Consumer Advisory Task Force 01//5/15.

<sup>3</sup> Question 1: What customer classes and customer groups should be targeted for participation in financing programs? Austin Energy Weatherization Program Low Income Consumer Advisory Task Force April 17, 2015, p. 4.

of 700 would generally be viewed as a low risk for a loan.<sup>4</sup> The grant money funded a loan loss reserve that would reimburse Velocity for any defaults. Austin Energy reported that this program to date has had a fairly good record of customer repayment of the loans.

This recommended program could increase the access of low-moderate income customers to affordable financing for replacement of cooling and heating appliances by lowering the FICA score needed to qualify for the energy efficiency loan. The financed funds would be used to purchase weatherization services and cooling and heating appliances.

Additionally, customers whose family incomes are between 301 and 400% federal poverty guidelines would have access to cooling appliances at a discounted price.

The reduced price would be obtained through Austin Energy entering into a commitment to purchase a minimum number of cooling units (for example, 100 room air conditioners ) from a distributor-manufacturer. The price offered Austin Energy would be the price paid by the customer. The discount at a minimum should equal the highest discount obtainable from the manufacturer-retailer.

Standard residential rebates for energy efficiency measures and energy efficient cooling and heating appliances would also be part of this program thereby reducing the total amount of debt incurred and thereby providing greater assurance that moderate income customers will have access to low cost credit and an affordable repayment plan. Use of a rebate will also ensure greater quality control by ensuring a before and after inspection of the Austin Energy customer's residence is made to ensure the energy efficiency measures and goods are properly installed.

Since Austin Energy will rely upon contractors to market the program and since moderate income families will have access to discounted cooling and heating appliances, the application process should include information about the reduced priced cooling and heating appliances to ensure the energy efficiency program applicant is informed of this option. Contractors should also be required to provide cost comparisons with the reduced price cooling and heating appliances for any other purchasing option recommended by the contractor. Additionally only contractors meeting requirements established by Austin Energy may be hired by Austin Energy customer under this program.

**Budget:** There are three funding components to this proposed program:

1. One-time funding to either increase or establish another loss reserve to incentive a lending institution to accept moderate income applicants through either a lower FICA score or through proof of credit worthiness such as a year's timely payment of utility bills;
2. One-time funding to establish a contingency reserve to provide payment to the manufacturer-retailer if the guaranteed minimum level of cooling appliances are not purchased; and
3. Funding for rebates which should be set a higher level than the current rebate for the Home Performance Loan Program.

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<sup>4</sup> *Ibid.*, p 3.