

To: Senate Natural Resources and Energy Committee
From: Maura Collins, Executive Director of Vermont Housing Finance Agency (VHFA)
Date: January 20, 2023
Re: S.5

Thank you for the opportunity to speak to this important bill. Knowing the realities of climate change and the targets set in the Global Warming Solutions Act, I see the Affordable Heating Act as **the best way** to achieve the goals the legislature has set for the state.

I also think there are opportunities for existing programs to work within this framework to help with implementation. VHFA's new Weatherization Repayment Assistance Program (WRAP) being one.

At the same time, we need to be honest that the transition from our current system to this needed change is going to cost money, and there is a real risk that without firm targets to serve and guardrails to protect, that this transition could continue the economic and environmental burden that lower-income Vermonters already face.

I do believe our state has a goal of ensuring equitable access to the benefits of energy efficiency, renewables, and energy incentives. But where we sometimes fall short is in the *implementation* of that goal.

And I can see why. Equitable access requires that we make things *cheaper and easier* for lower-income Vermonters because there are real economic barriers that have prevented access to many programs.

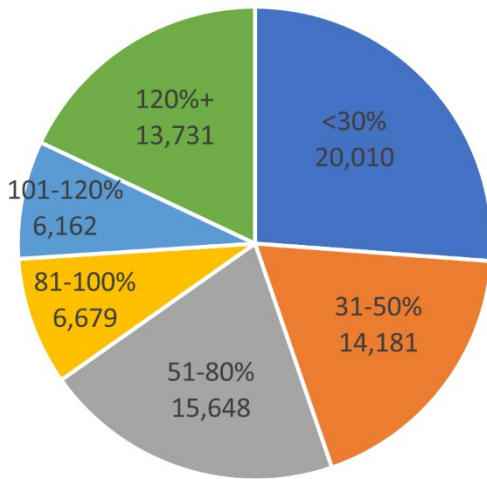
The income-based mandates in S.5 are a meaningful step towards equity and I applaud their inclusion. This is a great first step, but I'd ask the committee to consider if instead of that percentage being the same year after year, if we could front load the benefits to lower income households by increasing that percentage for the first five or so years, and then level out at the 16 and 16%.

Additionally, I'm not sure if or where property owners will fall in these 16% and 16% targets, since they may not income qualify themselves but their residents may be lower income. This is another area where maybe the first few years could have a stronger focus on rental housing, which levels out over time.

This is important because the costs of imported fossil fuels will rise in year one and so the race will be on for lower-income households to be served and they will have fewer resources to draw upon to withstand several years of higher costs if they have to wait.

I don't have a magic number, just like I don't believe the 16% and 16% were settled based on firm math, but I would encourage the committee to think about if the overwhelming majority of benefits could serve the lowest income Vermonters for several years, when the market for credits will likely be the strongest.

% of Median Income



Also, when you get to specific language reviews, I know I've heard others raise the question of if the wording is clear enough to ensure obligated parties can't just do all the installed measures in higher income homes which require less subsidy to reach. This is something I hope you focus on with legislative counsel to make sure your intent is matched by the language in S.5.

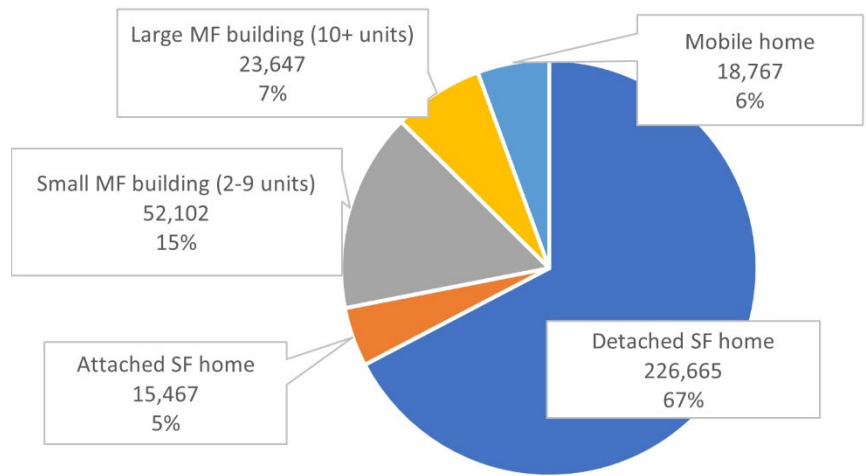
How "low" and "moderate" income get defined will be critical to understand and can really materially shape who is served. I can see why this is complicated to define, and so I'm going to assume for the remainder of my comments, that low-income means people earning less than 80% AMI and moderate-income includes those up

to 120% of median. If the income levels are set far below these levels, which I think there's an argument to be made for, then some of my concerns I'm going to state next might be alleviated. But without a definition, we have to acknowledge that within the LMI population there will be some easier actions that can be taken which can leave others behind.

There are certain economic realities that are likely for lower-income households:

- Paying for **large, upfront costs** associated with "installed measures" may prevent many lower-income households from being able to participate in the benefits the AHA will create unless the "incentives" cover almost the entire cost of the measure.
- Relatedly, many may **not have the ability to take on debt** to cover these costs. This may be because of existing outstanding debt, poor credit, or inability to repay the loan.
- Assistance with **helping a household navigate** this new system is going to need real attention. I think many of us can appreciate the humility we feel when there are too many options to address our needs. Who will act as the trusted advisor to residents who are weighing their options?
- **Most lower-income Vermonters are renters**, and the majority of those tenants pay their own utility bills. The AHA does not address that landlords will have no incentive to make any changes to the home and yet renters will have no choice but to pay the increased cost of fossil fuel usage.
- Homes often need more than just weatherization or installed clean heat measures. Good targets for clean heat credits also are often homes in need of substantial health and safety improvements but there is not adequate funding for these other basic needs. Costly electrical panel upgrades may be required to convert to heat pumps; structural issues (to the roof or basement) may need to be addressed prior to solar or other installations; and addressing asbestos or vermiculite might be needed before adding insulation. There are **not sufficient resources to address a home's health and safety needs** and yet they are needed precursors to the installed measures that could generate clean heat credits. This issue is widespread. The Vermont Office of Economic Opportunity (OEO) operates the One Touch program where auditors visiting Vermont homes through OEO's weatherization programs survey households about other housing quality issues and connect clients with social services. They found:
 - 71% of those surveyed identified structural or safety risks (including defective or missing smoke or carbon monoxide detectors, wiring issues, inadequate stair or porch railings, and windows or doors that would not open for exit); and
 - 52% found moisture problems (including plumbing or roof leaks, drainage problems, visible mold, or rotted building areas).

Since we're focused on residential thermal, it's important for the committee to understand who will have easier and harder access to the benefits of the AHA. One lens we can use to think about that is to categorize people by their housing situation:



- As can be seen in the chart, 67% of homes in VT are detached single family homes. These will likely be among the easiest to serve of this population, although they will likely face the hurdles listed above.
 - For homeowners, there are great options available, most notably weatherization. We have programs such as WRAP, Weatherization Assistance Program, and other incentives that will help them. Additionally, 27% of renters live in single family homes and they, too, could theoretically participate in WRAP. One might surmise that it will be relatively easier for lower-income homeowners to enjoy the benefits of the AHA, if they can overcome the standard barriers listed above.
- 5% of homes are single-family attached, and some number of the “small MF buildings” likely include condominium associations. These jointly governed associations could have a difficult time voting to approve investments in the property, without which residents will not be able to participate in a beneficial program.
- Multifamily housing:
 - Before the passage of S.5 there is a significant gap in available subsidies for retrofitting existing housing with a goal of decarbonization. Without addressing that gap, LMI households will be left behind.
 - While we discussed the impact of large upfront costs, those are a barrier for existing affordable rental housing with restricted rents as well because those restricted rents mean they have little capacity for additional debt.
 - Large multifamily buildings also have unique site constraints that will likely limit their ability to install AHA-eligible measures. I hope the committee will invite in Kathy Beyer from Evernorth to discuss those realities, but they include:
 - Existing multifamily buildings where electrification may be physically very challenging due to the design of the building or even the capacity of the electricity available (one downtown St. Johnsbury building there was a limit on how much electricity was available to the housing due to nearby commercial demand.)
 - There are sometimes no places to put condensers in tight downtown developments, especially where there’s no room for ground-mounted ones and the roof can’t support them or there’s no space due to solar.
 - Running refrigerant lines through a MF building can be complex, might trigger the need to relocate residents when doing rehab projects, which is especially problematic with the tight housing market but is very disruptive to move someone out of their home.
- Finally, manufactured homes, which Census calls mobile homes despite them not being mobile, also might not even be able to be weatherized or retrofitted. There are many unique considerations for that property type, and yet we know that these homes can be very inefficient and a likely target for the AHA.

There are enough 'easy' projects to keep obligated parties busy for a long time. What S.5 could do is to prioritize some of these more difficult scenarios and add in incentives or requirements to push the market to serve those households including manufactured home residents and renters.

One solution may be for the committee to look at the four ways an obligated party can obtain the clean heat credits. One existing option is to deliver clean heat measures through a designated statewide default delivery agent. Is there a way to focus that default delivery agent's work on renters with a split incentive, homeowners with tangential upgrades needed, and/or manufactured homeowners?

Could the requirements of the AHA be timed differently to front-load those more difficult households to ensure they are first in line and not left paying higher bills until we can meet their needs?

I will finish with a few final self-interested questions for you to consider:

- I think the Equity Advisory Group would be well served by having a housing professional named as a part of the group. Since the AHA's focus is so largely on residential, a representative focused on low- and moderate-income households with an understanding of housing would be critical. I will suggest VHFA to be this representative, but you may have other ideas. Thinking through these implementation details is going to be critical as well as a data-oriented organization that can monitor progress as it rolls out.
- WRAP is a tool, but an unproven one so far. That pilot still needs to grow to serve more renters. WE have a plan and some funding to expand to panel upgrades, but that has yet to be implemented or approved by the PUC. There is an opportunity through WRAP, but more time is needed before we fully know how useful it will be to this need.

I am grateful for the opportunity to speak to these issues, and I encourage you to hear from more housing professionals to further build out these ideas.