Business & Technology Advisory

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NRECA
America's Electric Cooperatives

2018 U.S. Department of Agriculture Rural Energy Savings Program (RESP) Roundtable Takeaways

Key Findings

- The Rural Energy Savings Program (RESP) now allows for whole replacement of manufactured home units.
- USDA's Rural Development (RD) wants feedback from partners on how they can increase awareness, improve the loan process and make the program better to serve rural communities.

What has changed?

On November 27, 2018, energy professionals, utilities, non-profit organizations and government agency representatives gathered at United States Department of Agriculture's (USDA) office in downtown Washington, DC to hear from the USDA about the changes to the RESP, share information, and discuss how best to maximize the effect of the program to better serve rural communities.

The Rural Energy Savings Program (RESP) provides loans to entities that agree to make affordable loans available to help consumers implement cost-effective, energy efficiency measures.[1] The program was authorized by Congress in the 2014 Farm Bill and appropriated in 2016. As a departure from the requirements in 2016, the Consolidated Appropriation Act of 2018 **now allows for the replacement of the whole manufactured home unit if the new unit will result in energy efficiency savings.[2]**

What is the impact on cooperatives?

The RESP provides loans to entities that agree to make affordable loans available to help consumers implement cost-effective, energy efficiency measures. [3] By participating in a retrofit or replacement project, RESP will help reduce energy bills for families and businesses in rural communities, help reduce obstacles to investment in energy efficiency projects or activities, and support the economic development of rural communities in America.

From roundtable discussions, there is a recognition that the key change to the RESP that allows for replacement of whole manufactured homes provides more opportunities to help rural communities implement cost-effective energy efficiency improvements. While the change is an opportunity for more eligible entities to apply for loans, it may also raise a question with respect to the tipping point for retrofit versus replacement of whole manufactured homes. Borrowers and home owners may need to consider the acceptable home replacement cost point that would make the most sense.

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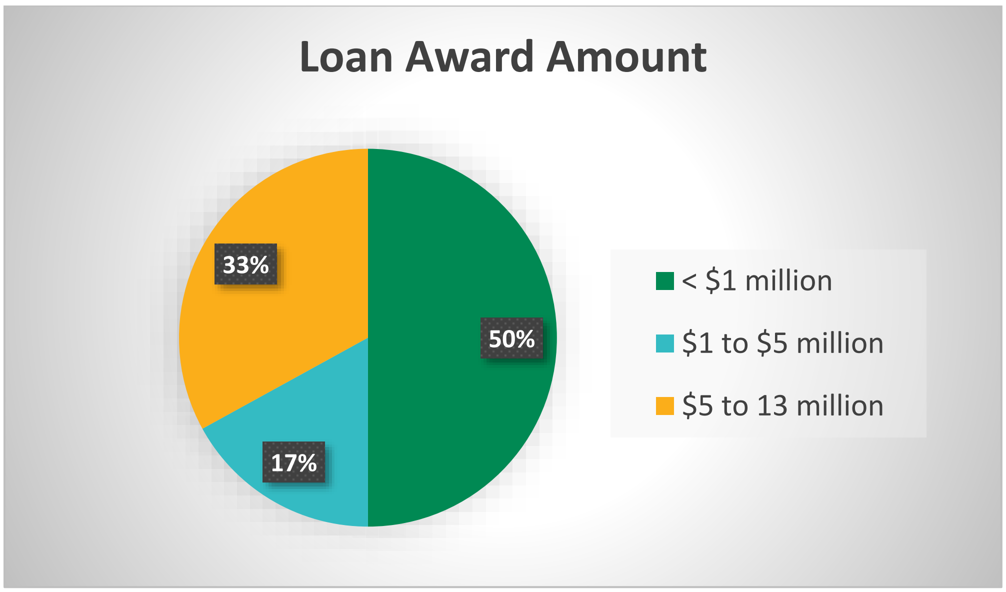
[1] https://www.rd.usda.gov/files/fact-sheet/RD-FactSheet-RUS-RuralEnergySavingProgram.pdf
[2] https://www.gpo.gov/fdsys/granule/FR-2018-08-06/2018-16743/content-detail.html
[3] https://www.rd.usda.gov/files/fact-sheet/RD-FactSheet-RUS-RuralEnergySavingProgram.pdf

What do cooperatives need to know or do about it?

RESP is the newest USDA program. It offers direct zero percent interest rate loans with up to 20-year terms to eligible entities who can lend to qualified consumers at up to 3 percent interest rates. The loans to the consumer are to be used for energy efficiency measures and are paid back to the borrowing entity through On-bill Financing (OBF). Additionally, the consumer has 10 years to pay back the loan. States participating in the program (before the announcement of the whole home replacement change) include: South Carolina, Colorado, Arkansas, North Carolina, Ohio, Oregon, Virginia, Washington and Wisconsin.

Currently, $100 million in appropriated funds are available with more funds coming. In addition, RESP has completed $50 million in loans. Loans awarded range from $250,000 to $13 million; 50 percent of all loans are equal or less than $1 million, 17 percent are between $1 million and $5 million while 33 percent of the loans are between $5 million and $13 million.



USDA emphasized that opportunities exist for using available funds and input from roundtable attendees is necessary on how USDA can leverage and expand the program's reach, especially because of the new whole home replacement of manufactured homes.

At the **"Financing Methods and Structures"** discussion, attendees stated that while there are risks to the lending entity/utility that the consumer may default on their loans, using OBF and attaching the tariff to the meter mitigates some of the risks. Furthermore, structuring the loan as a tariff allows renters to participate in the program and credit-worthiness of the occupant is not considered, unlike other OBF models which tie the loans to the resident.[4] RESP participants represented at the roundtable mentioned that they have had success in recovering the loans, and they can still disconnect power if the consumer does not pay the bill. Of course, the structure of OBF programs depends on many aspects including utility regulatory structure and state consumer lending laws.[5]

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[4] http://www.ncsl.org/research/energy/on-bill-financing-cost-free-energy-efficiency-improvements.aspx
[5] ibid

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There is also a risk to the utility if a unit does not have an occupant because the loan does not build interest when a dwelling is unoccupied. However, this is a risk that some RESP participants are willing to take because according to them, "their consumers love the program and customer satisfaction is one of the key reasons to participate in the RESP."

At the **"Technical Needs and Requirements"** discussion, attendees discussed the tipping point with respect to manufactured housing and retrofit versus replacement. Attendees felt that replacing the whole home would make more sense if energy savings gained exceed the housing payment. While quality of life would certainly improve and costs may go up, some home occupants may not want to take on new debt even when it makes sense. Attendees also recognized the need for research data to help inform the discussion relative to the question of retrofit versus replacement.

Ultimately, the attendees recognize that creative partnerships remain key to trying to solve these problems. Partnerships could include health and community organizations, credit unions and banks, home builders, non-profit and for-profit organizations, etc. State or area conditions – laws, regulations, and weather, etc. – also impact how the RESP is implemented.

Attendees also provided various ideas on how USDA can make the program successful, as well as possible immediate changes to the program. Ideas include:

- Improve and speed up the application process; better communication between loan office and applicants,
- Encourage information-sharing between successful applicants and potential applicants or entities unsure about the program. Make successful applicants "ambassadors" for the program,
- Create an orientation package for new applicants to include an application toolkit, templates of a successful loan application, and instruction webinars, and
- Improve marketing for the program to raise awareness and visibility.

USDA acknowledged the need to improve the process and welcomes ideas from everyone. The roundtable ended with an open question that will be discussed in future discussions:

> *As the program grows, how can USDA leverage other funding sources so that the consumer will get the best out of it? Can the program match any subsidy that the consumer receives from other entities?*

Additional Resources

- Rural Energy Savings Program (RESP) Fact Sheet
- On Bill Financing – an Overview
- Financing Member Investments in Efficiency and Solar: A Solution for Cooperatives?

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