Portland Energy Efficiency Retrofits: Creative Funding

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Most people recognize that rising housing costs create financial burdens for families, as reflected in the data on housing cost-burdened households. Energy cost burdens caused by rising utility costs in changing climates, which disproportionately impact communities of color, receive less attention. A recent study found that low-income communities of color "are 27% more energy cost burdened than low-income residents in white neighborhoods," despite the fact that they use less energy.

Because many of these costs are associated with older, less weatherized housing stock, energy improvements such as insulation, window and door upgrades, and installation of energy efficient appliances can save residents as much as $1,500 a year. Energy improvements have the added benefit of reducing energy consumption. Unfortunately, while investments in energy efficiency provide long-term cost benefits, the initial costs are unaffordable to many residents with low incomes.

Craft3 has found a way to make energy upgrades available to homeowners and renters without requiring an upfront investment. Craft3 is a regional community development finanical institution (CDFI) that has provided funding to support community resilience in Oregon and Washington since 1994. In 2009, Craft3 began working with the City of Portland on an initiative called the Clean Energy Works Portland pilot, which aimed to make home energy loans that could be repaid through utility bills.

This model was made feasible by state legislation that allowed homeowners to finance energy projects through payments on their heating utility bills. The pilot targeted credit-constrained households by offering low interest loans for energy upgrades that could be repaid on utility bills. The program prohibits power shutoffs for delinquent payments, but the loss rate as of 2018 was less than 1%.

The Portland pilot worked with the main utilities and the local redevelopment agency as well as local community-based organizations, who provided outreach support to communities of color and assistance in applying for the program. When the pilot ended in 2011, a statewide program was developed in which homeowners can work with a list of approved contractors and Craft3 can provide a 50% deposit directly to the contractors. Another significant feature of the Craft3 repayment program is that delinquent loans are removed from the utility and serviced by Craft3. From 2009 to 2018, Craft3's program provided $50 million worth of loans for 4,000 energy upgrades in owner-occupied homes.

Cover Photo: David Gn

Financing

The Portland pilot was financed through the federal Energy Efficiency and Conservation Block Grant Program (funded by the 2009 American Recovery and Reinvestment Act) as well as public and private investment, which established a $7 million revolving loan fund managed by Craft3. The utilities collected loan repayments on their customers' utility bills, which were then forwarded to Craft3. The statewide program created after the pilot ended was developed with a $20 million grant from the US Department of Energy.

In 2013, the Self-Help Federal Credit Union purchased the home energy loan program's debt for $15.7 million, which was the first secondary market transaction for on-bill repayment in the country. The sale to Self-Help gave Craft3 more capital to meet additional demand.

What made this work?

The innovations in Craft3's clean energy program relied on governmental support including regulations and subsidies. But as a regional CDFI with relationships with local community groups and an understanding of the risks and likelihood of repayment, Craft3 was well positioned to make their pilot successful. They established the terms and caps on energy retrofit with a strong understanding of the financial and energy needs of residents.

The program also benefited from the fact that the Pacific Northwest is a region with a large number of older single-family homes, where the market for a program focused on loans to low-income homeowners is strong. It should be noted, however, that most low-income families live in multi-family developments that they do not own.

Photo Credit: Ryan J. Lane

Other Communities

Climate technology start-up BlocPower uses a similar on-bill model to finance energy efficiency investments in multi-family developments. Since its start in 2014, BlocPower has retrofitted over 1,000 buildings in New York, saving residents 20-70% on their energy bills. Initiated with $2 million of Department of Energy funding, BlocPower's model is based on their observation that investors are often uninterested in financing small projects in low-income neighborhoods, which they see as high risk. BlocPower's assessment was that the risk was lower than investors assumed, but it took them a while to realize that in order to scale up, they needed to build a marketplace to attract investors. In February 2021, BlocPower announced they had acquired $63 million dollars in capital ($55 million in debt and $8 million in equity) to expand their efforts into 24 other cities. As with Craft3, customers use their utility bills to repay the retrofit costs.

The Property Assessed Clean Energy (PACE) program is also built on new financing tools for green energy. PACE allows owners to finance renewable energy and energy efficiency improvements on their properties through a special energy financing district. The financing attaches a debt to the property, which allows individuals to pass on the costs and benefits of solar installation with the property. PACE debt is authorized through local districts that establish special assessments for utilities. This requires state legislation and can be used for commercial and residential investments. Unfortunately, properties with PACE obligations are not eligible for Federal Housing Administration (FHA) funding.

As new technologies and climate risks emerge, there will be a continued need for new financial tools to bring climate adaptation within reach of residents. Creative financial models can help make this happen.

Spray foam insulation that conserves energy
Photo Credit: PiLens Photo

Lessons

- **State regulatory and legislative action can smooth the path for new investments.**
  - The models for Craft3 and BlocPower use on-bill payment, which is allowed and/or subsidized in 30 states. PACE financing is allowed in 37 states.
  - State and federal governments already incentivize some investments over others. Aligning incentives and regulations to make climate investments easier and more attractive should be a priority. Community-minded organizations should define how those investments are made, and subsidies should be provided to support pilot projects.
  - Pilot projects can help advocates encourage supportive state and federal policies.
- **Local CDFIs and community development corporations (CDCs) may be uniquely positioned to pilot new climate-resilient financial models.**
  - CDFIs are well suited to pilot climate investment models because they know their communities and their mission-based approach allows them to take risks that other financial institutions may be reluctant to take. This makes them good incubators for proving the financial viability of new loan products.
  - Federal support can jump-start these innovations.
  - Collaboration across the impact investment landscape can help scale successful innovation by offering take-out financing to successful investments and allowing capital to recycle.

About the Author

Saneta deVuono-powell is a co-founder and partner at Ground Works Consulting, where her focus is supporting equitable community development and climate justice. Saneta has over a decade of experience working on issues of racial justice, housing, and health and conducting community-based participatory research. She serves on the Oakland Rent Board, sits on the boards of the Texas Observer and The Safe Return Project, and is a contributing editor at Stranger's Guide. Saneta received her bachelor's degree from Sarah Lawrence College and both her law degree and her master's degree in city planning from UC Berkeley.

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https://centerforcommunityinvestment.org/resource/seeding-climate-resilience-through-equitable-investment

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