

WHAT IS ON-BILL FINANCING?

What Is On Bill Financing?

On-Bill Financing (OBF) allows homeowners to put monthly payments for heat pumps on their utility bills.

Where did On-Bill Financing originate?

OBF has been in use for nearly two decades around the United States. OBF was legislated for the State of Alaska by Statute AS 42.05.750 - AS 42.05.756 during the 2018 Legislative session. It was purposely designed to be enabled by *any* utility, including the CBJ Water and Sewer utility. Ft. Collins, Colorado offers OBF on their water utility bills.

Why is On-Bill Financing better than other financing methods?

OBF is critical to rapid heat pump adoption because it greatly reduces the friction of purchasing a heat pump and opens the market to many who could not or would not otherwise afford the investment. OBF allows homeowners to make payments with the savings on their heating bill, paying it off in 5-7 years.

OBF is fundamentally different from other financing methods in three critical ways:

- **Easy Qualification:** Programs typically qualify applicants based on their utility payment history. This is a huge benefit for middle and lower-income applicants, who may have little credit history and/or little appetite for going through a bank qualification process. Rapid and easy loan accessibility vastly lowers the barriers to heat pump adoption.
- **Low Default Rate:** Default rates nationally are less than one percent, and usually less than .5%. Some programs reported zero default rate.
- **Transferability:** Loan payments are on the utility bill, so there is no bank lien necessary. If a homeowner sells their house, the payments (and benefits) go to the buyer, who continues making payments until the heat pump is paid for. This lessens the fear of “sunken costs” for homeowners considering installing a heat pump.

What will OBF cost the CBJ?

Almost nothing. OBF will have minimal setup costs for to the city, and incidental costs once the program is under way. It is designed to avoid using CBJ staff time.

This is because the City only facilitates the financing; it does not actually finance anything. The Program will handle qualification, loan servicing, and capitalization of the loans. The City merely provides a space on the utility bill for the amount to be paid and, when the utility bill is paid, forwards this payment to the entity managing the loan. It will be necessary to provide a software patch between the financial software and the CBJ Utility billing software, and for the CBJ to make monthly transfers, but customer service and any loan defaults will be the responsibility of the agency, not the City.

The CBJ would also need to provide Water and Sewer payment history for OBF applicants, as that is the primary way of qualifying applicants.

SUCCESS RECORD OF FOUR OBF PROGRAMS

Entity	Amount Loaned	# of Loans	Defaults
EPIC HOMES (Ft. Collins, CO)	\$ 7,250,000.00	459	0
OPALCO (Orcas Island, WA)	\$ 7,400,000.00	497	0
Electric Coops of South Carolina	\$ 10,000,000.00	1050	< 10
Gems (Hawaii)	\$ 18,000,000.00	540	0
	<u>\$ 42,650,000.00</u>	<u>2546</u>	



Utilities
 electric • stormwater • wastewater • water
 222 Laporte Ave.
 PO Box 580
 Fort Collins, CO 80522-0580
970.212.2900
 V/TDD: 711
utilities@fcgov.com
fcgov.com/utilities

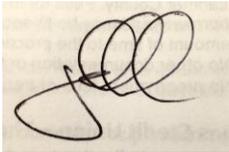
April 14, 2023

To whom it may concern,
 Fort Collins Utilities, a municipal owned utility in Colorado, regularly advises other utilities and organizations seeking to establish an on-bill financing program. Our Epic Loans program has been offered since 2012 for residential energy projects of all types. The program has funded a total of 459 loans with over \$7.25 million dollars. The average loan amount is \$14,229 and average payments are \$124 per month. *Over the course of the last 10 years, the program has had zero defaults.*

In our system, loan payments are simply considered part of the overall utility bill (which in our case has multiple services). Non-payment of the bill, including the loan component, results in the normal processes for collection, up to and including shut-off. We recognize this is an extraordinary security on the loan and the resulting low to no risk of default and we also currently have no loans that are more than 30 days overdue on payment. For rental properties, we have the property owner put the water service in their name and service the loan on that bill. This approach is included in the above overall numbers.

Please feel free to follow up with any questions.

Regards,



John Phelan
 Energy Services Manager and Policy Advisor
 Fort Collins Utilities
 970-218-2107, jphelan@fcgov.com

Eligibility Requirements

Utility Bill History	Previous 6 months on time payments
Minimum credit score	640
Bankruptcy, foreclosure repossession	None in the last 5 years
Unpaid Collection Accounts, Judgments, Tax Liens	No more than \$2,500

More information: fcgov.com/epichomes



Date: April 19, 2023

Stuart Cohen
Rapid Adoption Heat Pump Project
Juneau, AK 99801

Re: OPALCO on-bill financing (OBF) program

To whom it may concern,

OPALCO, a member-owned electrical distribution cooperative, started a tariff model OBF program called Switch It Up! (SIU) in 2019. Initially the program financed only ductless heat pumps (DHP) and heat pump water heaters. In 2022 the program expanded to finance a wider variety of energy efficiency projects including solar, windows, insulation, in-home storage, etc. and increased the maximum financing allowed per meter. As of April 2023, we have financed 497 energy efficiency projects totaling over \$7.4M with an average project financing is \$15k. DHP's account for 332 of the projects with the average project amount of \$12k. *Since the program's inception we have experienced a 0% default rate.* Despite our default experience to date, OPALCO maintains a 2% loss reserve for all financing outstanding.

Our program is structured as an opt-in utility tariff model whereas the repayment obligation is treated as a part of the overall utility bill, no different than tariff charges for Service Access or kWh charges. Non-payment of the bill, which includes the OBF, results in the normal processes for collection, up to and including shut-off. For rental properties, the property owner and tenant both sign an owner-authorization form, while the tariff is placed on the bill member paying for the metered service at the location.

Eligibility for financing is based only on the members rolling 12-month utility payment history. If the members payment history appears to show trouble paying bills timely, we may approve the project under the condition of the member to signing up for bill auto-pay.

Please feel free to follow up with any questions.

Best,

Travis Neal

Travis Neal, CPA
Head Accountant
Orcas Power & Light Cooperative



April 18, 2023

Stuart Cohen
Rapid Adoption Heat Pump Project
Juneau, AK 99801

Dear Mr. Cohen:

I am writing in response to your request to provide some context for the default rate in our Help My House[®] on-bill financing program. There have been more than 1,050 weatherization loans made to electric cooperative-served homeowners since our program launched in 2012. Forty percent of the loans are made to members who live in manufactured homes which offer some of the greatest returns. These loans have totaled more than \$10M with an average loan amount per home of \$10k. Our program's loan default rate remains below one percent.

Participating Help My House co-ops offer low-interest loans to their qualifying members to seal air leaks in their homes' envelope, install new heat pumps (HVAC), and improve or replace ductwork. Most of our participating co-ops qualify their members using billing payment history and do not require or consider FICO or other commercial credit scores. Program administrators ensure each member owns the property before a home is weatherized, and applications are declined if owners are in active bankruptcy or their home is in foreclosure. With rental homes and other third-party properties, we require the property owner's signature on the application and other loan documents.

Those are just a few details about Help My House that I hope are helpful as you consider a similar program for the community you serve. Feel free to give me a call if you have additional questions.

Sincerely,



Michael C Smith
VP Business and Technology Strategy
Electric Cooperatives of South Carolina
(803) 530-9996



JOSH GREEN, M.D.
GOVERNOR

GWEN S. YAMAMOTO LAU
EXECUTIVE DIRECTOR

HAWAII GREEN INFRASTRUCTURE AUTHORITY

No. 1 Capitol District Building, 250 South Hotel Street, Suite 501, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: gems.hawaii.gov

Telephone: (808) 587-3868
Fax: (808) 587-3896

April 19, 2023

Mr. Stuart Cohen
Juneau, AK 99801

Dear Mr. Cohen:

Re: Rapid Adoption Heat Pump Project

The Hawaii Green Infrastructure Authority (HGIA) launched its Green Energy Money Saver On-Bill Program (GEM\$) in April 2019. GEM\$ is a non-traditional financing program to expand access and affordability for underserved ratepayers to install solar systems to lower their energy costs. Instead of credit reports, GEM\$ relies on utility bill payment history and instead of debt-to-income ratios, loan repayment is made through energy savings that would otherwise have been paid to the electric utility.

Similar to your proposed Rapid Adoption Heat Pump Project, GEM\$ loan capital is repaid and the program does not subsist on grants. To date, with over 540 on-bill loans aggregating over \$18.0 million, **the program has not yet suffered any losses** (even through the pandemic), nor has there been any disconnections.

When Hawaii's Governor issued a "Stay at Home" Order in March 2020, requiring all non-essential workers to remain at home, the Hawaii Public Utilities Commission implemented a disconnection moratorium. This moratorium remained in place for the next fourteen months until May 31, 2021. During this period, Hawaii's unemployment rate skyrocketed from 2.8% (one of the lowest in the nation) in February 2020 to 22.6% (the highest in the nation) in April 2020. With Hawaii's top industry being tourism, many of Hawaii's workers remained unemployed for over a year.

As of March 31, 2023, while 41 or 11.0% of the loans were past due, all but 7 loans or 1.9% of the portfolio made payments in March or April 2023, which means that while these accounts fell behind during the pandemic and have not caught up to become current, they continuing to perform.

Our average residential loan is \$30,000 and average commercial loan is \$450,000. Qualifying for GEM\$ is a simple two-step process. (1) The ratepayer must not have received any disconnection notice over the past 12-month period; and (2) the estimated post-installation energy bill must have a minimum estimated 10% savings (including the loan repayment).

As always, should you have questions or if I can be of additional assistance, please don't hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Gwen S Yamamoto Lau".

Gwen S Yamamoto Lau
Executive Director