Written Testimony from Larry Laseter, President of WellHome, on behalf of the HOME STAR Coalition

Respectfully submitted to the

United States Senate Committee on Energy & Natural Resources

March 9, 2010

Table of Contents

I. Written Testimony
   a. Overview 3
   b. The Critical Need 4 – 7
   c. The Solution 8 – 10
   d. Measurable Outcomes 11 – 12
   e. Process & Administration 13
   f. Legislative Improvements 14

OVERVIEW

HOME STAR is an incentive program that will deliver a rare triple-win for the American people in the form of jobs, savings for consumers, and a positive impact on the environment.

HOME STAR will create jobs that can be filled immediately using a skilled and ready construction workforce — workers idled by the recession who are now most in need of help. It will drive increased demand for manufactured products and building materials, supporting further job growth and economic impact. HOME STAR will result in energy savings for homeowners and higher home values. And long-term efficiency gains will support energy independence and the environment as we reduce our carbon output. Importantly, the program can move quickly, with a minimum of red tape, and show immediate, measurable results that will create a platform for long-term development of a high-quality and rapidly growing home energy retrofit industry.

HOME STAR puts Americans back to work now and will create jobs in existing industries by providing short-term incentives for energy efficiency improvements in residential buildings. The program is designed to jump-start construction and manufacturing jobs by offering rebates to consumers who invest in home energy improvements and energy-efficient products and services. Demand will rise for skilled construction labor and advanced building materials as homeowners make improvements to their homes. Manufacturing inventories will be restocked and assembly lines for advanced materials and U.S. technology will start rolling again. Investment and capital will begin to flow to millions of idled construction and manufacturing workers and create new demand to retrofit homes for energy performance – now and into the future.

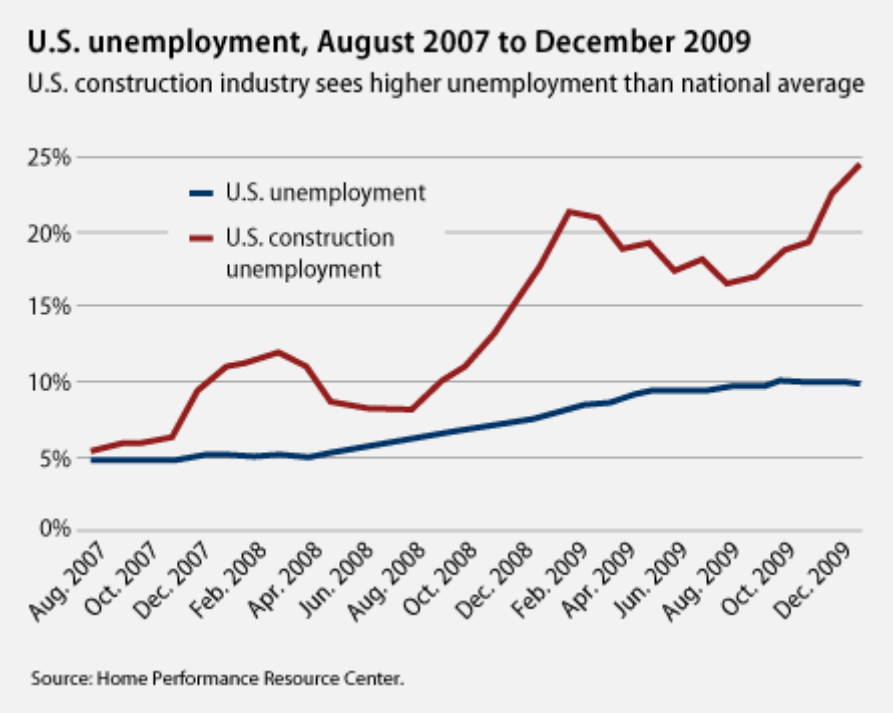
HOME STAR is a timely program that builds on existing policies and initiatives that have already demonstrated effectiveness. It has won widespread support from the HOME STAR Coalition, which is comprised of national retailers, building products manufacturers, labor advocates, environmental and energy efficiency groups, state agencies, contractors and more than 600 small businesses from every state. The Coalition views HOME STAR as a win-win-win. It will: 1) put an estimated 168,000 skilled Americans back to work in the hardest-hit part of our economy—the struggling construction and manufacturing sector; 2) help more than 3 million American families retrofit their homes for energy efficiency, saving them as much at $9.4 billion in energy costs over 10 years; and 3) positively impact the environment and create a healthier planet by removing the equivalent of 615,000 cars from the road. Now is the time for HOME STAR.

THE CRITICAL NEED

Construction: A One-Industry Depression

A program that incentivizes energy improvements would rapidly create jobs within the construction sector and in the manufacturing and retail industries that support it. These are areas of the economy that need help the most.

While the overall economy has begun a slow climb out of recession, the current state of the American construction and building materials industry remains depressed. Overall unemployment fell to 9.7% in January and February of this year, but unemployment in the construction industry has continued to rise, reaching 27.1% in February—meaning one in four American construction workers is currently out of work. This is a higher rate of unemployment than our country felt during the Great Depression.



USA Today – Feb. 25, 2010

"While most of the job market rebounded in January, the construction industry remained mired in its worst downturn since the Great Depression. The sector has lost about 2 million jobs since the recession started."

Construction-related unemployment is significantly higher in some states, with catastrophic results for local economies. Arizona, Nevada, Michigan and Florida, for example, have lost over 40% of their construction jobs since the peak of the housing market.

As devastating as these numbers are, the unemployment figures for construction probably do not reflect the full magnitude of the problem, due to the large number of self-employed construction workers that do not show up in payroll statistics. Economic Census data shows that the self-employed share of workers is

The Construction Decline

27.1% unemployment
for experienced workers in construction

2.1 million jobs lost
in construction since 2006

186,000 jobs lost
in construction-related retail such as building supply stores and lumber yards since 2006

The Opportunity for a Rebound

Only 50% capacity utilization
at plants in construction-related industries

7,000 companies
make and install windows, 82% of which are small businesses

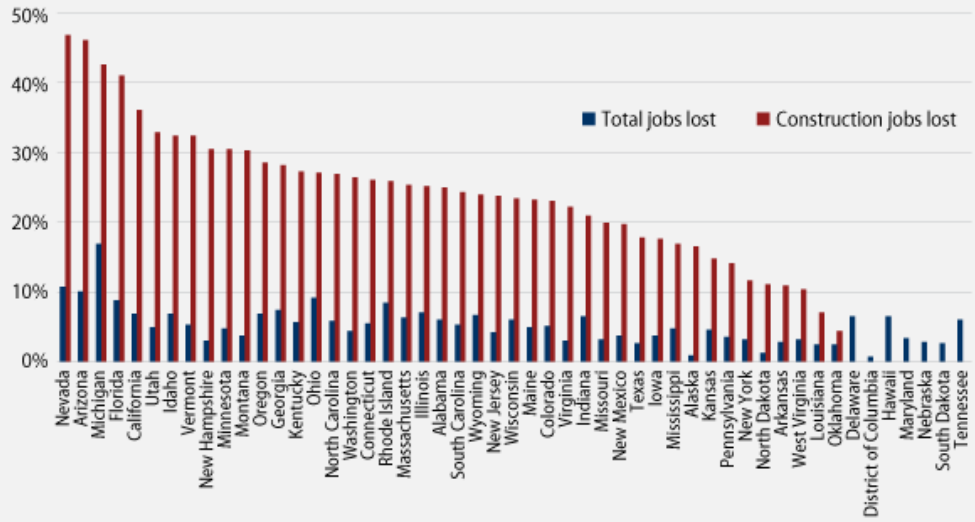
22,000 insulation installers
in the U.S., 85% of which are small businesses

2 million people
produce and install HVAC equipment and are poised to respond to the need

90% of key remodeling and retrofit products **are made in America**, such as replacement windows, furnaces, insulation and caulking

significantly higher in the construction industry than in other sectors (16.6% in 2008), so the jobs picture is even more dire than the statistics suggest.

Decline in jobs during the Great Recession
Construction and total percentage loss by state



Source: Data from Bureau of Labor Statistics Employment Data. Individual state data was not available for Delaware, District of Columbia, Hawaii, Maryland, Nebraska, South Dakota, and Tennessee.

Note that the job loss data date varies by state as each state may have a different date for peak employment. The calculations were prepared from individual state peaks to December 2009.

Further, more than 90% of contractors in the construction industry are small businesses—another hard-hit segment of the economy. Building materials manufacturing is off by at least 40% from its capacity. The result is hundreds of factories that have closed or are running only part-time lines. This shocking drop in construction industry jobs and its reverberating impact on building products manufacturers, retailers, and specialty trades demands attention and an urgent policy response. It is hard to foresee a robust economic recovery in communities when these depression-level conditions persist within local construction job markets.

By the end of last year, 42 of the 44 states with available data had seen job losses in excess of 10% of total construction jobs since the last peak in construction employment; 31 states had lost more than 20% of their construction jobs; 11 states had lost more than 30%; and four states

had experienced a shocking decline in construction employment of more than 40%.

Importantly, the vast majority of manufactured products and raw materials used in residential energy efficiency retrofits are produced domestically, so the dollars spent on HOME STAR improvements circulate primarily through the U.S. economy. In many categories of building materials, the rate of domestic production is over 92%.

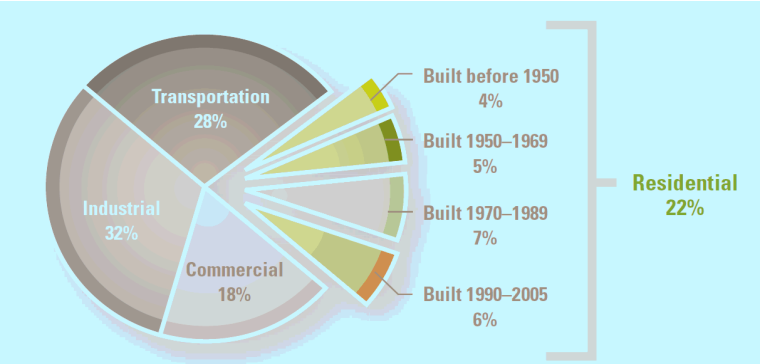
America has millions of skilled construction and manufacturing workers who are unemployed and need relatively little re-training to enter the retrofitting industry. HOME STAR is a targeted program that will create hundreds of thousands of new jobs, and impact thousands of local businesses in every community in America.

Energy Efficiency

Improving the energy efficiency and performance of existing homes could have a dramatic impact on the national consumption of energy. Two-thirds of the more than 100 million single-family homes in the United States were built before the adoption of modern energy codes.[1] These existing homes consume 22% of the nation's energy overall—approximately twice the carbon emissions produced by passenger cars.[2] This stock of older homes provides a prime market for energy efficiency upgrades.

[1] *U.S. Department of Energy* [2] *Pew Center on Global Climate Change*

Energy Consumption by Sector

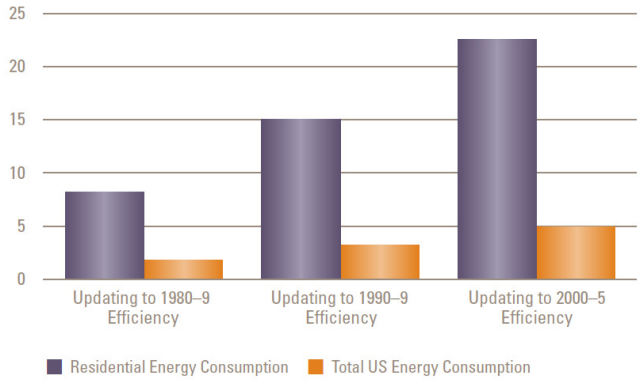


Source: US Department of Energy, Energy Information Administration, Annual Energy Review and Residential Energy Consumption Survey, 2005.

If homes built before 2000 used as little energy per square foot (adjusted by region) as those built since 2000, residential energy consumption would drop by 22.5%. While this calculation does not account for differences between older and newer homes related to layout, location, and household behavior, it does illustrate the potential energy savings from retrofitting the existing housing stock.

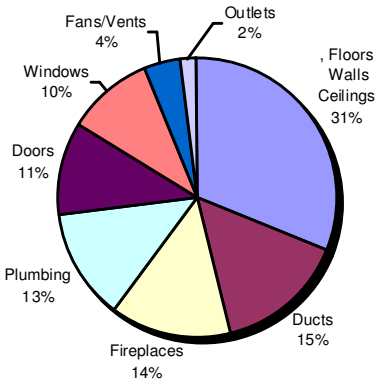
Improving the Efficiency of the Older Housing Stock Could Generate Substantial Energy Savings

Potential Decrease from 2005 Levels (Percent)



Note: Potential decrease is the energy that would be saved annually if the older stock consumed the same energy per square foot as homes built in the given time periods, controlling for region.
Sources: JCHS calculations based on the US Department of Energy, 2005 Residential Energy Consumption Survey, and the US Energy Information Administration, 2007 Annual Energy Review.

Common Sources of Energy Loss from Air Leakage



Reducing air leaks could cut up to 10% from an average household's monthly energy bill.

US Dept. of Energy

Another important factor that reinforces the need to make our homes more efficient is the impact on affordability. The housing and mortgage crisis occurred at a time of skyrocketing energy prices that pushed many homeowners over the edge into default as they could not pay both their mortgages and high energy bills. HOME STAR can help to cushion working- and middle-class homeowners against future energy price surges. Further, energy savings translate directly into lower bills and therefore greater housing affordability, helping to keep hard-pressed families in the homes.

The time for comprehensive home energy efficiency improvements is now, and HOME STAR offers Americans the opportunity to do their part in reducing energy consumption by improving the efficiency of their homes. HOME STAR offers significant and broad-based energy efficiency benefits. HOME STAR will help more than 3 million American families retrofit their homes for energy efficiency, saving them as much as $9.4 billion in energy costs over 10 years. This is the equivalent of removing 615,000 cars from the road or the energy generated from four 300-megawatt power plants. All supported technologies and improvement measures in HOME STAR are proven to provide the promised benefits.

Building on Existing State and Federal Energy Retrofit Programs

There are many opportunities for homeowners to improve efficiency throughout their homes. The most successful campaigns have included the Home Performance with ENERGY STAR program managed by the Department of Energy and the Environmental Protection Agency, and state or utility programs that have focused on replacing old equipment and retrofitting homes. The structure of the HOME STAR program pulls heavily from the Home Performance with ENERGY STAR program operating in 29 states. States as diverse as Oregon, New York, Tennessee, Rhode Island, Massachusetts, Missouri, Arizona, and California have programs that demonstrate the effectiveness of the HOME STAR approach and can help jump-start nationwide participation.

THE SOLUTION

HOME STAR is the solution to the serious issues and challenges outlined above. HOME STAR is a fast-acting, short-term job creation program that will drive private investment into the hard-hit construction and manufacturing sectors, while saving consumers money on their energy bills and reducing carbon emissions. It will build on current state programs and existing industry capacity for performing both retrofits and quality assurance, using federal standards and incentives as a common platform to lower program costs and increase consumer awareness. Strong consumer incentives to drive market demand, combined with meaningful standards and incentives for high-quality implementation of efficiency measures and verification of energy savings will ensure that the growing energy efficiency retrofit industry produces ongoing and measurable results while putting Americans back to work in long-term jobs.

In light of the fact that two-thirds of the more than 100 million homes in America were built before modern energy codes, there is a pressing need for the energy efficiency improvements HOME STAR will make possible. HOME STAR will simplify and lower the cost of home improvements such as fixing drafty windows and leaking ducts, installing insulation and high-efficiency heating and air conditioning equipment, replacing inefficient hot water heaters, or undertaking whole-home efficiency retrofits that can cut energy bills by 20% or more.

HOME STAR provides two types of consumer incentives:

- The **SILVER STAR *prescriptive path*** provides a near-term incentive for specific energy-saving investments. The incentive is simple to administer and easily introduced into the existing marketplace. Homeowners receive between $1,000 and $1,500 for each measure installed in the home, with a benefit not exceeding $3,000 or 50% of total project costs (whichever is less). Covered measures include air sealing; attic, wall, and crawl space insulation; duct sealing or replacement; and replacement of existing windows and doors, furnaces, air conditioners, heat pumps, and water heaters with high-efficiency models. The legislation will utilize existing standards for qualifying products at a level sufficient to significantly increase consumer demand for highly energy-efficient building materials and mechanical systems. SILVER STAR improvements may be implemented by any appropriately licensed and insured contractor, but all participating contractors will receive information about opportunities for accreditation and training programs.

- The **GOLD STAR *performance path*** offers an incentive to households that choose to conduct a comprehensive energy audit and then implement a variety of measures that are jointly engineered to provide greater total returns in energy savings. This performance path represents the future of home efficiency: state-of-the-art building science is used to identify problems,

present solutions, and deliver verifiable energy savings, generating confidence among homeowners and investors alike. This technology-neutral approach is based on performance, not specific products, so market forces will direct funds to solutions that achieve the best results. A certified professional with accreditation from the Building Performance Institute (BPI), the Residential Energy Services Network (RESNET) or an approved equivalent conducts an energy audit before work begins, and a test-out when the performance retrofit is complete. Consumers receive $3,000 for modeled savings of 20%, plus an additional $1,000 incentive for each additional 5% of modeled energy savings, with incentives not to exceed 50% of project costs or $8,000 (whichever is less). Contractors implementing the GOLD STAR performance path must be BPI accredited.

HOME STAR will require skilled, trained workers to complete the improvements cited above. With the depression of the construction market, there is a large workforce across the nation ready and eager to get back to work. HOME STAR will also create manufacturing jobs for the dramatically increased levels of insulation, windows, HVAC equipment, caulk, tools and other products needed for retrofitting America's housing stock. More than 92% of these products are produced in the United States by American workers. In addition, the retail distribution of products through home improvement stores and lumber yards will play an important role in increasing jobs in this sector. Retailers also will facilitate consumer education and access to energy improvement products. More than 90% of the jobs created through home retrofits are in small businesses, a powerful engine of economic growth and job creation.

Financing of Consumer Investments

Many middle-class Americans are squeezed by a lack of access to capital, which would prevent them from paying the homeowner share of investment in efficiency improvements. The HOME STAR legislation addresses this challenge by allocating $200 million for state programs that facilitate home retrofit financing. This would be accomplished through a range of existing and new financing approaches that include specialized local and national bank programs, property tax and utility bill financing, as well as national specialty lenders through federal agencies such as Fannie Mae. In this way, working families will be able to participate in the HOME STAR program. In addition, financing measures will increase the number of jobs created through HOME STAR by bringing new private capital investments into building retrofits, expanding the leverage of federal investments, and increasing the level of energy and dollar savings per home. This allocation of financing subsidies will create up to $1.5 billion in low-interest consumer financing and support a wide variety of existing financial products, including (but not limited to):

- Property Assessed Clean Energy (PACE) Loans
- Fannie Mae loans

- Non-collateral loans
- Secured loan products
- On-bill financing

In most instances, energy efficiency savings will exceed the monthly loan payments and allow American families to achieve cash-flow-positive results on HOME STAR projects from day one.

Quality Assurance

HOME STAR establishes a robust quality assurance system based on rigorous technical standards to protect against waste, fraud, and abuse. This system establishes industry performance standards, ensures that a portion of all jobs are inspected by credentialed professionals after project completion, and offers an additional incentive to contractors that invest in a properly trained and certified workforce.

Contractors can enroll in the program by registering and presenting proof of licensing and insurance to a quality assurance provider. These quality assurance providers are already certified through the Building Performance Institute (BPI), the Residential Energy Services Network (RESNET) and other nongovernmental organizations. Homeowners may be contacted by a quality assurance provider for a field inspection after a job is completed to verify that work was done according to standards and as contracted. The program will guarantee minimum inspection rates sufficient to assure quality work and provide accountability for contractors.

Quality assurance programs managed at the state level will maintain lists of qualified inspectors, facilitate access to training and certification programs (including outreach to low-income workers and minority contractors), coordinate with existing state and local efficiency programs, and develop systems for monitoring and enforcement. To provide for the long-term sustainability of this new and growing market, states will work with the Department of Energy to bring their quality assurance oversight up to a common national standard.

For GOLD STAR projects, contractors must submit a job completion checklist and work scope for each project, along with testing data, before the incentive is disbursed. SILVER STAR contractors are only required to submit a job completion checklist. For both the GOLD STAR and SILVER STAR programs, field quality assurance is conducted within 30 days on a sample of jobs to verify quality installation. Incentives will be paid to the contractors quickly so that their businesses will have adequate cash flow to operate efficiently and hire new workers.

Quality assurance requirements in HOME STAR will involve a simple paperwork review in approving individual rebates, with a minimum baseline protocol for field inspection that is sufficiently rigorous to ensure high-quality installation and appropriate consumer protection. In all cases, reduced inspection rates will apply for contractors employing a trained and certified workforce.

MEASURABLE OUTCOMES

One of the unique advantages of the HOME STAR program is that it will lead to measurable outcomes and the opportunity to quantify the benefits to job creation, consumer savings, energy efficiency, and environmental gains. HOME STAR will also help create a marketplace that is based on sound economics and that can stand on its own in the future without the need for permanent subsidies.

Jobs

HOME STAR is expected to create 168,000 construction, manufacturing, and retail jobs in local communities in every state.

These jobs will be quality, living-wage positions that cannot be outsourced overseas. Construction and manufacturing companies are poised to ramp up quickly to meet the increased level of demand for insulation, windows, HVAC equipment, caulking, tools, and other products needed for retrofitting America's housing stock.

This work is by its very nature local and requires skilled construction workers who are ready and available to fill the need. The HOME STAR legislation will create incentives for investing in a skilled and certified workforce that can build a long-term industry and provide good wages for skilled workers. Furthermore, most of the manufactured goods used to retrofit homes are produced domestically, with more than 92% of all the products incorporated into HOME STAR made in America.

The multiplier effect on jobs—from certified home performance advisors to installers, retailers, manufacturers, quality assurance contractors —coupled with its reach to literally every state and every community in America, makes the HOME STAR program a unique opportunity to put hundreds of thousands of people back to work.

Home Energy Efficiency

The HOME STAR program will help more than 3 million American families retrofit their homes for energy efficiency and save them as much as $9.4 billion over 10 years, while reducing their energy usage by 10-30%. This is the equivalent of an annual $500 stimulus per household that the homeowner will receive for years to come. Better use of energy in our homes could raise property resale values in a recovering real estate market, and offers an opportunity to confront climate change as it continues to threaten our environment and our national security.

In addition, smart investments in energy efficiency made today will pay for themselves through long-term energy bill savings. In fact, home performance improvements implemented according to the standards

set by the Building Performance Institute (BPI), a key part of the HOME STAR program, have already resulted in a less than three- to four-year payback on a homeowner's investment in thousands of homes.

Infrastructure

HOME STAR will help to establish a national platform, with national standards, for an industry that has been in the making for nearly 30 years. Over the past three decades, industry pioneers have built the foundation for the home performance industry. National standards and credentialing are in place through the Building Performance Institute (BPI), Residential Energy Services Network (RESNET), and other organizations. The EPA and DOE have increased public awareness and established rules for executing Home Performance with ENERGY STAR programs across the country. Private-sector individuals and companies, working with early champions such as the New York State Energy Research and Development Authority (NYSERDA), have produced energy modeling software, productivity and project management software, and powerful training programs for the army of installers that will be needed to meet future demand. In New York, more than 30,000 GOLD STAR-level retrofits have resulted in average annual energy savings of over 25% per household. They have also recorded and modeled the anticipated energy savings from retrofits and remodeling, proving that energy efficiency improvements are effective and have a tangible return on investment.

Environment

Basic efficiency improvements can reduce energy waste and greenhouse gas emissions in most American homes, often by 10-30%. This is particularly true in the nearly 80 million homes built before modern energy codes.

In total, household energy use accounts for more than one-fifth of U.S. carbon emissions—roughly twice the emissions produced by passenger cars. Spurred by HOME STAR rebates, home retrofits are projected to increase to 3 million a year from the current level of 200,000 a year, which could result in carbon output reduction equal to taking 615,000 cars off the road or the energy generated by four 300-megawatt power plants.

Energy Independence

By further scaling back America's dependence on fossil fuels, we reduce our vulnerability to an energy marketplace with extreme price swings caused by those outside of our country, who may be hostile to our interests. Reducing this dependence will not only improve our national security, but also the economic security of American families.

PROCESS & ADMINISTRATION

The fundamental success of HOME STAR relies on rapid deployment and ease of execution both for the consumers it intends to serve, as well as for the service providers and government administrators involved in delivery and oversight. The HOME STAR Coalition has brought together a diverse group to work through the many details required for rapid deployment to ensure this legislation can work quickly.

Administrative Process

The HOME STAR program must meet several overarching goals. To be successful, HOME STAR must rapidly put construction workers back to work and create good, living-wage jobs for American workers; generate a minimum of new government bureaucracy; provide clear lines of authority; and offer a transparent process for all participants.

HOME STAR is not dependent on whether authority rests with a particular federal agency; rather, authority could reside within a number of federal agencies without compromising the program goals. The federal government must, however, provide uniform guidance to establish consistent baseline resources and procedures for all states. States will take the lead in overseeing quality assurance programs, implementing financing plans, and coordinating with existing programs to avoid duplication. The ultimate implementation of this program will be driven by market transactions, and as such the program will set aside administrative funds to drive consumer awareness.

HOME STAR will provide rebates to consumers, which will be assigned to the contractors who complete the work, thus providing an instant price reduction at the point of sale. Rebate checks will be issued by the federal government through rebate aggregators that assist contractors in processing payments and data to ensure smooth and timely payments. Existing state and utility programs will participate in this role along with large retailers or national organizations. In any case, administrative procedures are designed for speed and efficiency to roll the program out rapidly and effectively and to avoid payment delays.

LEGISLATIVE IMPROVEMENTS

While the current draft bill is excellent, we believe that there are two important changes that could be made to enhance the legislation. First is the addition of a targeted incentive for customer-installed measures with educational materials for insulation. This helps to drive consumer awareness and consumer activity at the retail level that will translate into installed measures and program awareness. The second is the integration of the HOME STAR incentives with the existing 25C tax credits. Some incentives are currently available through tax credits, but many Americans cannot take advantage of these credits nor address the delays and uncertainties of their impact. These credits help but do not solve the goals of the HOME STAR program. It is paramount that consumers not be faced with uncertainty and confusion regarding energy efficiency tax credits and HOME STAR incentives. To avoid homeowner confusion, we recommend that the customer be able to take a 25C tax credit on the net amount of the work after incentives but staying within the overall 50% cap. This would simplify and ensure easy coordination and application of both credits. The HOME STAR incentives have been calculated based on the use of this approach.

With these small improvements, we believe that the HOME STAR legislation will put Americans back to work in all 50 states and begin to address the depression in the construction and housing industries.

Thank you for the opportunity to testify on behalf of the HOME STAR Coalition.