

# On-bill Programs in Michigan

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# Agenda

- Why on-bill?
- What's in the legislation?
- Why and how did Holland create an on-bill program?
- How is Holland's on-bill program going?
- What's next for on-bill in Michigan?

# Why On-bill?

## Market Gaps Addressed by On-bill Programs

- Expanding access to those who don't qualify for traditional loans by using utility bill payment history for underwriting
- Lengthening terms to 15 years oftentimes gets close to matching payments to savings
- Tenants can work with landlords to share the costs and realize benefits of improvements
- Homeowners who expect to move soon may be more inclined to install energy waste reduction improvements if the obligation transfers to next owner
- One bill makes it easy for customers to pay

# Legislation

- Michigan Municipal Utility Residential Clean Energy Program Act (PA 408 of 2014) signed into law in December 2014
  - Enables municipalities that have municipal electric utilities to establish a “**residential** clean energy program”
  - Allows a municipality to enter into a contract with a residential property owner to finance or refinance one or more energy projects on the property and repay the loan on the utility bill
- Public Acts 341 and 342 of 2016 signed into law in December 2016
  - Regulated utilities may establish a “**residential** projects program”
  - Allows an owner of record of property in the provider’s service territory to finance or refinance an energy project and repay the loan on the utility bill

# Major Provisions of the Laws

- Program administration
- Eligible improvements
- Financial product requirements
- Required program design elements

# Program Administration

	<b>Municipality</b>	<b>Regulated Utility</b>
Establishing program	Resolution, public hearing, detailed report	Commission approval of a proposed plan
Administration	Municipal utility or any nonprofit	Utility or any third party
Lending laws	Must comply with all state and federal lending laws	Must comply with all state and federal lending laws

# Eligible Improvements

	Municipality	Regulated Utility
Energy waste reduction	Yes	Yes
Renewable energy	Yes	Yes
Water efficiency or water use reduction	Yes	Yes
Improvements necessary to allow energy waste reduction improvements (e.g., asbestos removal, below-code wiring)	Broad interpretation of the law would allow	Broad interpretation of the law would allow
Fees and installation costs for implementing eligible improvements	Can be included in financing	Can be included in financing

# Financial Product

	Municipality	Regulated Utility
Origination and servicing	Municipal electric utility, nonprofit corporation, or commercial lenders	Commercial lender or other legal entity including subsidiary of provider
Capital	Bonds, owner-arranged financing, or funds available to the municipality through any other source	Commercial lender or other legal entity including subsidiary of provider
Interest rate	If nonprofit provides financing, maximum interest rate is prime plus 4 percent	If nonprofit provides financing, maximum interest rate is prime plus 4 percent
Term	Maximum term is 15 years or useful life of measures	Maximum term is 15 years or useful life of measures



# Financial Product (cont.)

	Municipality	Regulated Utility
Loan treatment	Part of the charges for electric service and paid monthly as a per-meter charge on utility bill	Part of the charges for electric or gas service and paid monthly as a per-meter charge on utility bill
Consequences for nonpayment	Same as electric service; service can be shut off for nonpayment	Same as electric or gas service; service can be shut off for nonpayment
Transferability	If notice of loan is recorded with register of deeds, payment obligation transfers to subsequent occupants at time of property transfer	If notice of loan is recorded with register of deeds, payment obligation transfers to subsequent occupants at time of property transfer

# Required Program Design Elements

	Municipality	Regulated Utility
Residential only	Yes	Yes
Audit	Required	Required
Quality assurance	Verification of proper installation and operation must be completed on every project	Verification of proper installation and operation must be completed on every project

# Program Design Options

	Municipality	Regulated Utility
Program administrator	Utility or other nonprofit	Utility or third party
Eligible improvements	Eligible improvements are listed but all are not required	Eligible improvements are listed but all are not required
Loan origination and servicing	Can be done by utility, nonprofit or commercial lender	Can be done by utility, third party or commercial lender
Capital source	Bonds, owner-arranged financing or other source available to municipality	Law is not prescriptive
Underwriting	Law is not prescriptive	Law is not prescriptive
Disconnection for nonpayment	Allowed but not required	Allowed but not required
Transferability	Allowed but not required	Allowed but not required

# Oversight

	Municipality	Regulated Utility
Overall program rules	PA 408	Commission must establish within one year
Develop and monitor plan	City resolution	Each regulated utility gets plan approved by commission; plan is reviewed every four years by the commission
Reporting	Established in city resolution	Commission must issue report to legislature every five years
Monitoring	Established in city resolution	Energy ombudsman

# Holland's On-bill Financing Journey

holland  
michigan

WHERE **BIG** IDEAS  
*Come Alive*

**Holland Community Energy Plan**

Holland, Michigan has launched a comprehensive energy plan that will make our community a national leader in energy security, affordability, sustainability and efficiency.

Photo: NASA

# Holland Board of Public Works

- Wholly owned subsidiary of the City of Holland
  - Electric
  - Water
  - Wastewater
  - Broadband
- Service area includes city and four townships
- 28,000 electric meters
  - 82 percent residential
  - 18 percent commercial and industrial
- Generates 60 percent of power
  - 13.6 percent renewables
- [www.hollandbpw.com](http://www.hollandbpw.com)



# Process

- Researched best practices
- Found experts
- Set program goals
- Designed program
- Wrote report
- Developed pilot
- Launched

## Research

- SEE Action May 2014 Report (DOE/EE 1100)
- Public Sector Consultants Study
- ACEEE December 2011 Report (E118)
- DOE Better Buildings Summit
- Webinars



# Experts and Funders



**EESI**  
Environmental and Energy  
Study Institute



**Harcourt Brown & Carey**  
ENERGY & FINANCE



CHARLES STEWART  
MOTT FOUNDATION®



**PUBLIC SECTOR  
CONSULTANTS**

# Holland

## Energy Fund

- Nonprofit corporation
- Five-member board
- \$3M line of credit to fund loans
- .25% additional payment in lieu of taxes to City general fund
  - Program incentives
  - Administration
- [www.hollandenergyfund.com](http://www.hollandenergyfund.com)

# Program Goals

- Stakeholder engagement session
  - Half day
  - Preread materials
- Included:
  - Staff from City of Holland and BPW
  - Bankers
  - Realtors
  - Title company
  - Contractors
  - Citizens



## Program Goals

- Strengthen community and neighborhood by:
  - Encouraging deep energy savings (environment)
  - Increasing access (equity)
  - Administratively operating in a cost-effective manner (economic)

# Program Design

- Eligible measures
  - Anything in Michigan Energy Measures Database, plus some non-EE measures
- Loan type—tariff
  - \$5,000 to \$30,000
  - Fixed interest rate
  - Up to 15 years
  - Transferable
- Qualification criteria
  - Bill payment history
  - Comprehensive energy assessment
- Source of capital
  - Reserves (to start)
- Administration





# Program Entities and Rolls

Entity	Role
<b>Customer/Homeowner</b>	Select authorized contractor for energy assessment
	Select authorized contractor for improvements
	Apply for loan and repay on electric utility bill
<b>Home Energy Assessment Professional</b>	Conduct comprehensive, whole-home energy assessment
	Conduct blower-door testing, infrared analysis, and other diagnostic procedures
	Prepare assessment report

## Program Entities and Rolls (cont.)



Entity	Role
<b>Installation Contractor</b>	Install energy-saving or renewable energy improvements under contract with Customer/Homeowner
	Follow program procedures for reporting completed project to Loan Originator
	Follow program procedures for reporting project to Michigan Saves

## Program Entities and Rolls (cont.)


Entity	Role
 <p><b>Holland</b> MICHIGAN</p>	<p>Develop, market, and administer a Home Energy Retrofit Program and coordinate with stakeholders</p>
	<p>Offer utility energy optimization programs with customer incentives</p>
	<p>Promote Holland On-Bill Loan Program to customers and provide support (e.g., customer service and contractor outreach)</p>
	<p>Bill customers and collect loan payment</p>
<p><b>Holland</b> Energy Fund (lender)</p>	<p>Provide loan capital and hold loan agreement</p>



## Program Entities and Rolls (cont.)

Entity	Role
 <p>(Program Administrator)</p>	Register, train and oversee the network of authorized contractors
	Manage the activities of the loan application center
	Conduct customer satisfaction surveys and quality assurance inspections
	Manage and analyze data and monitor program results and impacts
 <p>(Loan Originator)</p>	Accept loan applications from customers and make loan determination
	Prepare loan closing documents and close loan with customer

## Program Entities and Rolls (cont.)

Entity	Role
 <p><i>Power, Performance, Personalization.</i></p> <p>(Loan Servicer)</p>	Process loan payments
	Track principal and interest paid on loan
	Monitor delinquencies and payoffs

## Development and Launch

- Configured processes and systems
- Created marketing materials
- Conducted contractor training
- Launched October 31, 2016
  - Goal: Deep retrofits to 1,000 homes within four years

Holland On-Bill Loan Program

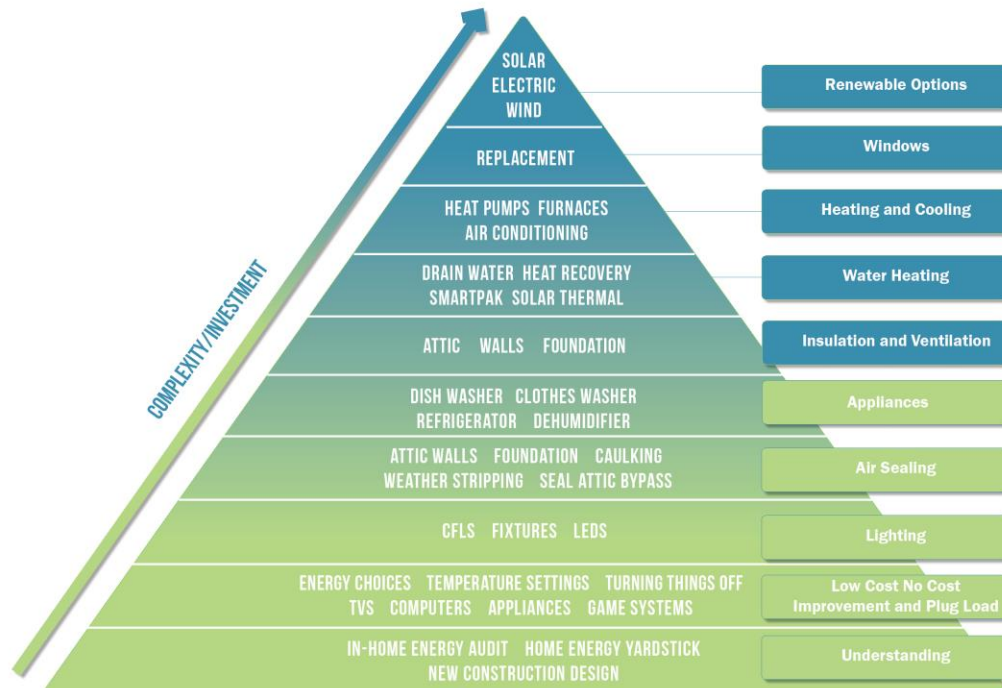


Holland Home Energy Retrofit Program



# Loading Order

## THE ENERGY EFFICIENCY PYRAMID



# Results

	November 2016–January 2017
Applications	27
Approved	20
Closed loans	2
Range of loan value	\$5,056–\$29,284
Average loan value	\$10,138
Chose 5.99% with longer term	2

## Lessons Learned

- Do consider it
- Don't go it alone
- Don't count on, "If you build it, they will come."

# What's next for Michigan?



Michigan Saves is investigating the possibility of building a **statewide on-bill system** to:

- Create economies of scale
- Lower administrative costs
- Make implementation easier for each utility
- Centralize financing expertise
- Offer consistency in program design

# Thank you!

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**Purpose**

High up-front costs can be a significant challenge to investing in home energy improvements. A program that provides affordable loans, which a customer can repay on their monthly utility bill, is one way to overcome this cost barrier. Holland Energy Fund (HEF), a nonprofit corporation facilitating and financing the Holland Community Energy Plan, created the On-Bill Loan Program to help homeowners implement energy-efficiency and renewable energy improvements. For more information, see [www.hollandenergyfund.com](http://www.hollandenergyfund.com)

**Loan Product Details**

**Structure/Minimum Standards**

<b>Eligible Properties</b>	Single-family (one to four unit) homes. Rental/income properties are eligible provided the landlord meets program requirements.
<b>Location</b>	Homes must be within the city limits of the City of Holland. Homes within Holland Charter Township and the rest of the Holland Board of Public Works (HBPW) service area are not eligible.
<b>Loan Type</b>	Unsecured consumer loan. Notice of the loan is recorded with the county register of deeds. Any unpaid amount can be added to property tax bill and enforced through a tax lien foreclosure process.
<b>Transferable</b>	Yes, if property is sold, the loan can stay with the property if agreed upon by buyer.
<b>Eligible Improvements</b>	Qualifying energy-saving home improvements, installed by an authorized contractor. A whole-home energy assessment with diagnostic testing is required for each financed project. Renewable energy measures are permitted if the home has a Home Energy Score greater than eight (on a ten-point scale).
<b>Loan Amounts</b>	\$5,000-\$30,000. Multiple loans per customer are allowed if the total amount financed does not exceed the maximum allowable loan amount. Multiple loans are consolidated into one loan at the current interest rate.
<b>Loan Term</b>	Up to 15 years or life of the measure, whichever is less.
<b>Loan Rates</b>	4.99% interest rate for loan terms up to 120 months 5.99% interest rate for loan terms greater than 120 months
<b>Repayment Mechanism</b>	Customers repay the loan through a per-meter charge on the monthly HBPW bill for electric services. The payment is considered part of the charges for electric services to the property. There is no penalty for early repayment.
<b>Key Underwriting Criteria</b>	Twelve consecutive months with no late payments on electric utility bill payment history; no delinquent taxes; no bankruptcies within three years (from discharge), foreclosures, or repossessions greater than \$1,000; no unsatisfied money judgements.
<b>Loan Agreement</b>	The loan agreement is between Holland Energy Fund and the customer. Upon completion of the energy efficiency improvements, HEF pays the contractor directly and the loan payments begin.

## Loan Application Process

- 1 The customer connects with a Michigan Saves authorized contractor working in the Holland On-Bill Loan Program. See [hollandenergyfund.com/on-bill-loan-program](http://hollandenergyfund.com/on-bill-loan-program)
- 2 The contractor completes an energy assessment, performs diagnostic testing, and prepares a report
  - a. Existing whole-home assessments can be used if done within the last 12 months
  - b. No test-in necessary if asbestos-containing material is found
  - c. If customer is seeking the 20 percent rebate from the Home Energy Retrofit program, the assessment must be approved by the Holland residential energy advisor
- 3 The customer and contractor agree on work scope and the contractor explains the Holland On-Bill Loan Program
  - a. If seeking the 20 percent rebate from the Home Energy Retrofit program, the residential energy advisor must participate in the development of the work scope
- 4 The customer initiates the loan application process
  - a. Online application is preferred; paper application is also available
  - b. [energyfinancesolutions.com/sites/energyfinancesolutions.com/files/pdfs/holland-energy-fund-credit-app-fillable.pdf](http://energyfinancesolutions.com/sites/energyfinancesolutions.com/files/pdfs/holland-energy-fund-credit-app-fillable.pdf)
- 5 The loan originator, Energy Finance Solutions (EFS), provides a loan decision
  - a. If pre-approved, EFS issues a conditional pre-approval letter to the customer
    - i. Conditional pre-approval letter indicates which documents must be provided to EFS to receive the approval
    - ii. Conditional pre-approval also subject to review of tax and utility repayment history and conformance with program requirements
  - b. Once documentation is provided by the customer, and the customer qualifies for the loan, EFS issues an approval letter
  - c. If the customer is denied, EFS sends a denial letter stating the reason for denial and notifies the contractor
- 6 Upon approval, EFS sends the loan documents to the customer for signature
  - a. The customer takes the loan documents to the HEF office at Holland City Hall for signatures and notarization
  - b. The customer has three days to cancel the loan by submitting a rescission notice to HEF. If the loan is not cancelled, EFS notifies contractor that the work can proceed
- 7 The contractor completes work
  - a. If there is a change in the work scope, the customer or contractor must submit a change order to EFS
    - i. EFS will resend the loan documents to the customer for a signature
- 8 The customer signs a Michigan Saves Certificate of Completion and submits it to EFS
  - a. The contractor must provide the test-out documentation, when applicable
- 9 The loan is closed
- 10 HEF pays the contractor and records the loan with the county register of deeds
- 11 The customer repays the loan via monthly charge on the electric utility bill

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## Program Contacts



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