



The Iowa Policy Project

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EXECUTIVE SUMMARY

Making Residential Energy Efficiency Accessible to Low-Income Iowans

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One of the best ways to reduce Iowa's energy consumption is to make energy efficiency improvements to homes. Unfortunately, such improvements are an unaffordable luxury for most low-income Iowa families, who live in the state's most energy inefficient housing and struggle with high energy bills.

Iowa has a history of leadership in energy efficiency, but falls short in reaching low-income families. The Weatherization Assistance Program does not reach all low-income Iowans who would benefit from such improvements. Federal tax credits created in the American Recovery and Reinvestment Act (ARRA) to encourage energy efficient improvements do not benefit low-income taxpayers who pay little or no federal income tax. Utility-run programs offer financial incentives to conserve energy, but are unevenly regulated and under-utilized by low-income Iowans.

Energy efficiency programs can be improved to increase low-income households' access and thus reduce utility bills and greenhouse gas emissions.

Low-Income Iowans Need Energy Efficiency

Residential energy use is a key contributor to climate change. In 2005, Iowa homes accounted for 14 percent of the state's total greenhouse gas emissions.¹ Home energy use differs by income level. Low-income households use less energy *per household* than do higher-income households, in part because higher-income Iowans are more likely to live in larger houses. However, low-income Iowans often have inefficient appliances and live in older, less efficient houses making their energy consumption *per square foot* higher than higher-income households.²

In fact, low-income homes in the Midwest — typically older and larger than houses in other regions — are the least energy-efficient, using 15 percent more energy per square foot than the national average for low-income homes. The Energy Programs Consortium estimates the one-fifth of Iowa households with the lowest incomes account for one-third of Iowa's residential greenhouse gas emissions.³

These inefficiencies exacerbate home energy costs for low-income households:

- On average, low-income Midwest households spend about 13 percent of their entire incomes on home energy costs, compared to 3 percent for non low-income households.⁴
- Home energy assistance programs do not bring energy costs down to the 6 percent that is considered to be the affordable portion. The average annual energy bill in Iowa during 2008 was \$2,066⁵ while the average 2008 energy assistance payment was \$390.⁶

High energy bills give low-income Iowans a strong incentive to reduce costs, but no means to do so. Responding to this growing energy affordability gap requires attention to *both* the Low Income Home Energy Assistance Program (LIHEAP) and residential energy efficiency. Targeted investments in energy efficiency can reduce energy consumption, and meaningful LIHEAP payments complement these steps by making home energy costs more affordable. These changes are urgent, as effective climate policy will likely increase the cost of fossil fuel based energy.

Weatherization Assistance Does Not Meet Tremendous Demand

The Weatherization Assistance Program (WAP) provides federal grants to improve homes' energy efficiency and thus energy costs for low-income households. Iowa's WAP weatherizes just over 2,000 homes each year with funding from the state, the U.S. Department of Energy, and Iowa's regulated utilities. WAP expects to weatherize 7,000 more homes over the next three years because of increased funds from ARRA. Still, as of 2009, 165,206 Iowa homes are eligible and in need of weatherization — more than WAP has weatherized in its 29 years.

Federal Tax Credits No Benefit to Low Income Households that Do Not Pay Taxes

Federal tax credits for energy efficiency in ARRA offer a 30 percent credit for the cost of certain energy efficiency improvements, up to \$1,500. However, because these credits are non-refundable, they only benefit families paying federal income tax. For instance, a married couple with one child would have to earn more than \$36,000 a year to pay any federal income tax. As a result, these tax credits primarily benefit upper-income taxpayers.

Utility Programs Also Have Gaps

State law regarding energy efficiency treats different kinds of utility companies differently. Rate-regulated, investor-owned utilities (Alliant, MidAmerican and Black Hills), energy efficiency plans' are open to public comment and must be approved by the Iowa Utilities Board (IUB). Plans must also target low-income customers.

Consumer-owned utilities (COUs), including rural electric cooperatives and municipal utilities, also must submit energy efficiency plans to the IUB. However, these plans do not require board approval, and are not required to target low-income households.

Falling Through the Efficiency Gap

Consider a single parent with one child and an annual income of \$30,000. This family pays no federal income tax, so does not benefit from tax credits for energy efficiency. The family also is ineligible for LIHEAP and WAP because their income is too high (the WAP income limit for this household is \$29,140). Yet, a comprehensive efficiency retrofit of this family's home could cost as much as 23 percent of their annual income.

Energy efficiency improvements pay for themselves over time, but the family does not have the discretionary income to invest in these measures.

Conclusion and Recommendations

Low-income Iowans with access to residential energy efficiency opportunities can reduce their home energy bills and Iowa's greenhouse gas emissions. Below are some recommendations:

- Continue LIHEAP funding to make energy more affordable for low-income Iowa households.
- Expand the Weatherization Assistance Program to reach more low-income families.
- Structure energy efficiency tax credits so that low-income households can benefit.
- Require all utilities to participate in state-regulated energy efficiency plans that include programs targeted to low-income Iowans.

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The Iowa Policy Project is a nonpartisan, nonprofit policy research and analysis organization based in Iowa City. Find the full report on this issue and others at www.iowaPolicyProject.org.

¹ Center for Climate Strategies, *Final Iowa GHG Inventory and Reference Case Projection*, October 2008, Table ES-1 and Table B3a.

² Energy Programs Consortium. *Income, Energy Efficiency and Emissions: The Critical Relationship*. February 2008, Table 6. Available at www.energyprograms.org/briefs/080226.pdf.

³ Energy Programs Consortium 2008, Appendix Table 6.

⁴ U.S. Department of Health and Human Services, Division of Energy Assistance, *LIHEAP Home Energy Notebook for Fiscal Year 2007*, June 2009. Data for Midwest households from Table A-3b.

⁵ Fisher, Sheehan and Colton 2009.

⁶ "Iowa Low-Income Energy Programs," LIHEAP Clearinghouse website. Available at liheap.ncat.org/profiles/Iowa.htm.