

In the News

Stimulus Package Promotes Energy-Efficiency Spending

Builders and remodelers looking for an edge in the current housing market may want to brush up on their energy retrofitting and weatherization skills. That's because a significant portion of the \$787 billion American Recovery and Reinvestment Act of 2009 — the stimulus package — passed by Congress and signed by President Barack Obama in February contains major spending provisions and tax cuts intended to improve the energy efficiency of existing homes. In all, more than \$20 billion is targeted for investments in energy efficiency (see table, below).

Improvement credits. Under the plan, IRS Section 25C tax credits originally introduced as part of the Energy Policy Act in 2005 and reinstated last fall by the Bush administration have been extended and increased. For existing homes, qualifying improvements — windows and doors, insulation, metal and asphalt roofs, hvac equipment, nonsolar water heaters, and biomass stoves — are eligible for a 30 percent homeowner tax credit. Under the old rules, a 10 percent credit was capped item by item (for example, \$200 for windows, or \$150 for a furnace), with a lifetime cap of \$500. The new rules eliminate the individual caps and instead offer a more generous aggregate tax-credit cap of \$1,500.

For building-envelope improvements, the credit applies only to the cost of the components. For energy equipment, installation costs are also eligible.

Stimulus Package Spending Highlights	
Weatherization Assistance Program	\$5 billion
Energy Star appliance rebates	\$300 million
HUD low-income housing repairs	\$4 billion
Native American housing repairs and energy-efficiency upgrades	\$510 million
Low-income housing energy-efficiency upgrades	\$4.5 billion
Low-income housing lead-paint removal	\$100 million
Construction and energy-efficiency improvements to federal buildings	\$5.5 billion
Modernizing electric grid	\$4.5 billion
State energy programs	\$6.3 billion
Construction training for high-risk youth	\$50 million
State grants for adult training	\$500 million

■ Ever wonder how the CEOs of big production builders are faring in these troubled times? According to a recent article in the *L.A. Times*, Jeffrey Mezger, chief executive of KB Home, received \$9.6 million compensation in 2008. Of that, \$2.75 million was part of a “nonequity incentive plan” rewarding Mezger’s ability to limit losses — in a year when KB lost nearly \$1 billion.

■ Sears has launched an online name-your-price home-improvement site called ServiceLive.com. Users select prescreened local contractors, describe their repair or project, and specify the amount they’re willing to spend. After they upload funds to a ServiceLive account, the first provider to accept their terms wins the project.

■ A North Carolina construction worker who says co-workers shot nails at him, used racial epithets, and tried to hang him on a job site was awarded \$50,000. However, a federal jury ruled that company owner Willie Farrell of Farrell Log Homes did not personally create a work environment that allowed the abuse.

Qualifying standards have been raised. For example, not all Energy Star-rated windows are eligible. Only windows with a U-value and solar heat gain coefficient (SHGC) of 0.30 or less qualify for the credit. For details on qualifying products, go to energystar.gov.

The credit applies to projects completed between February 1, 2009, and December 1, 2009. (The IRS is still working on guidelines for projects completed in January of this year). Homeowners will have to file IRS Form 5695 by April 2010 and should save project receipts and manufacturer certification statements for each qualifying improvement.

Alternative energy. For both existing homes and new construction, a 30 percent tax credit —with no cap — is available for qualifying geothermal heat pumps, solar

voltaic systems, solar water heaters, wind energy systems, and residential fuel cell systems. Under the old rules, heat pumps and solar hot-water heaters were capped at \$2,000, and wind projects at \$4,000. While these alternative energy credits can't be claimed along with the improvement credits above, homeowners have until 2016 to make the upgrades.

Weatherization. Federal funding from the Department of Energy for its low-income Weatherization Assistance Program has been increased from \$447 million to \$5 billion, to meet the Obama administration's goal of increasing the number of households weatherized each year from 140,000 to 1 million. While details about funding levels and how the money will be distributed are still being developed, state weatherization programs — already ramping up after last year's spike in energy prices — are expecting both a bump-up in their annual operating budgets and a one-time infusion of stimulus money equal to 10 to 30 times their annual federal allocation.

In some states, local nonprofit community-action agencies provide nearly all low-income weatherization services; in others, private contractors perform some or all of the work. But with the surge of funding, agencies more accustomed to saving pennies than spending dollars will need to quickly expand in-house training programs, hire additional field and administrative staff, and partner with remodelers who can do similar work. The Office of Economic Opportunity Studies estimates that for every \$1 billion in DOE weatherization funds, more than 26,000 jobs will be created, for positions ranging from "green-collar" workers to trainers, auditors, and state and local administrators.

Builder credit. One measure that hasn't changed is the \$2,000 home-builder tax credit for homes that exceed — by 50 percent — standards set by the 2004 International Energy Conservation Code (IECC) for insulation, heating, and cooling. (For modular-home manufacturers, it's a \$1,000 tax credit on units that save 30 percent.) This credit expires in December and applies to homes completed after August 8, 2005. Owners or designers of commercial buildings that save at least 50 percent of the heating and cooling energy established by ASHRAE standard 90.1-2001 can claim a tax deduction of up to \$1.80 per square foot.

Additional spending. The plan allocates another \$5.5 billion to energy-efficiency improvements for federal buildings, and \$4 billion to rehabilitating public



Home performance testers look to be busy as billions of dollars in new DOE weatherization funds become available.

Housing Market at a Glance

From December 2008 to January 2009, sales of new single-family homes fell 10.2 percent to a seasonally adjusted rate of 309,000 units, according to recent statistics released by the Department of Commerce. This figure is almost 50 percent below the January 2008 estimate of 597,000. The median sales price was \$201,100.

Housing starts in January 2009 were at a seasonally adjusted annual rate of 466,000, 16.8 percent below the revised December 2008 estimate of 560,000, and 56 percent below the revised January 2008 rate of 1,064,000. This is a new record

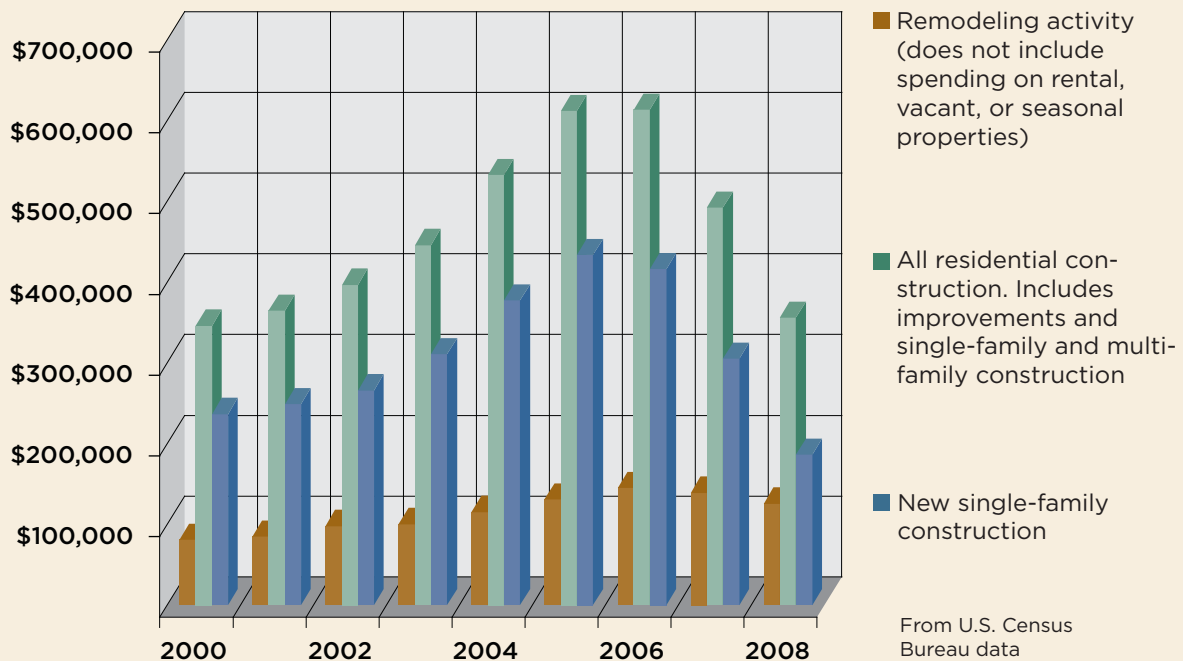
low in a downturn that has continued for seven straight months. Regionally, starts fell nearly 43 percent in the Northeast, 29.3 percent in the Midwest, 12.8 percent in the South, and 6.4 percent in the West.

Sales of existing homes fell in January by 5.3 percent over the previous month to an annual rate of 4.49 million, the lowest since 1997, according to the National Association of Realtors. The median price dropped 15 percent from a year ago to \$170,300, a six-year low. Distressed properties accounted for 45 percent of all sales, which declined in three out of four

regions in the country (only the West remained unchanged). Sales declined the most in the Northeast (15 percent).

In the remodeling market, homeowner spending on improvements continues to decline, but at a more modest 10 percent to 12 percent annual rate. According to the Joint Center for Housing Studies of Harvard University, the remodeling market — which peaked in the middle of 2006 and has dropped steadily since 2007 — will likely shift from upper-end discretionary projects back to system upgrades, exterior replacements, and basic maintenance (see chart, below).

Construction Trends 2000–2008



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housing. State energy program grants — for energy-efficiency incentives and energy-code development — receive \$3.1 billion, and another \$3.2 billion goes to energy-efficiency and conservation block grants for state and local programs. Even Department of Labor workforce training programs benefit under the plan, receiving \$500 million to train workers in careers in renewable energy and energy efficiency.

What's the outlook? No one knows how effective the combination of tax credits, rebates, and historically low interest rates will be at getting home buyers and homeowners to spend when the overall economic picture is still so gloomy. But it looks like remodelers have the most to gain from the stimulus package. As a group they're in better shape than home builders (see "Housing Market at a Glance," previous page), though they're still being battered by falling home sales (a major driver of home improvement spending), shrinking home equity (typically used to finance improvement projects), and a frozen credit market. But if the stimulus plan works the way its authors and supporters hope it will, the public's interest in sustainable remodeling will dovetail perfectly with its focus on improving energy efficiency — which can only be good news. — *Andrew Wormer*

■ A good way to get rid of the 300 million or so used tires generated by the U.S. each year is to burn them in Portland cement kilns, says the Portland Cement Association. A study funded by the organization concludes that kilns that burn a mixture of coal and tire-derived fuel (TDF) emit less particulate matter, nitrogen oxide, metal, dioxin-furan, and sulfur dioxide than kilns burning only coal.

■ Several Amish families have sued the town of Morristown, N.Y., after officials refused to grant building permits for the sect's traditionally built homes. In a federal lawsuit, members of the Old Order Swartzentruber group, who avoid the use of electricity and indoor plumbing, claim that code requirements for smoke detectors, engineering plans, construction inspections, and other provisions violate their religious beliefs.

PEX Approved in California

Following the lead of every other state and many of its own counties and cities, the California Building Standards Commission finally approved the addition of PEX plastic pipe to the California Plumbing Code. When the new CPC is adopted in August, PEX will be approved for both residential and commercial construction. Meanwhile, local jurisdictions are free to approve PEX before statewide adoption, as many already have.

First proposed in 2000, the code change has been the subject of a protracted political battle. In 2001, the CPC listed PEX as an acceptable material for domestic water piping but didn't actually approve it for installation. Soon after, a suit filed by the Plastic Pipe and Fittings Association (PPFA) resulted in a court order allowing the material's use without an environmental review. Then, in 2004, an appeals court reversed the court order, leading to an exhaustive environmental study of the product by the California Building Standards

Committee. "PEX has probably been studied, scrutinized, and analyzed more than any nonmetal building material in history," says Richard Church, executive director of PPFA, referring to a 296-page environmental impact report on the plastic pipe.

The code change was opposed by the Coalition for Safe Building Materials, a lobbying group consisting of the California Pipe Trades Council, California Professional Firefighters, the Center for Environmental Health, and the Sierra Club. The coalition argued that PEX pipe contains harmful chemicals — such as benzene and trichloroethylene — that could leach into drinking water. But according to NSF International, an independent testing laboratory, PEX pipes contain neither benzene nor trichloroethylene, and trace amounts of any other potentially harmful compounds left over from the manufacturing process would dissipate within 90 days to levels below those considered by the EPA to pose a health risk. — *Andrew Wormer*