14x Stimulus

A Plan for State and Local Governments

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For State and Local Governments

Architecture 2030

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Stimulus
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Multiply Your Stimulus Dollars:
14x Stimulus

A Plan for State and Local Governments

By: Architecture 2030
With: ICLEI – Local Governments for Sustainability, RESNET, and Veterans Green Jobs

What if there was a way for states, cities, and counties to leverage each $1 of federal stimulus money spent to generate $14 of private spending, create 14 times the number of jobs, reimburse the federal government $3, and get $1 back to boot? Well, there is a way, the '14x Stimulus' plan.

The plan is being proposed by Architecture 2030 and its partners ICLEI – Local Governments for Sustainability, RESNET, and Veterans Green Jobs. It is a state/local version of Architecture 2030's One-Year, 4.5-Million-Jobs Investment Plan, which is based on its widely adopted 2030 Challenge. The effectiveness of the national plan in creating jobs and private spending has prompted these groups to propose a public/private partnership to strategically focus stimulus dollars that will enable a full-scale building industry revival while simultaneously addressing energy and greenhouse gas emissions reductions.

The Plan: How it Works

Based on the same principles as the national plan, the 14x Stimulus plan recommends using state and local stimulus money to create a local mortgage buy-down program that offers reduced mortgage interest rates contingent upon renovating or building to meet specific energy reduction targets. For existing homes, mortgage interest rates would be lowered 1% below the current market rate qualified for by the homeowner if, with a minimum homeowner investment in efficiency upgrades and/or renewable energy systems (which is added into the new mortgage), the home is renovated to meet a minimum HERS 70 (or equivalent[1]) rating. For new homes, interest rates would be lowered by ½% below the current market rate qualified for by the homebuyer for achieving a HERS 70 rating and 1% for achieving a HERS 50 rating. Assuming the current U.S. average, 30-year, fixed mortgage interest rate is 5%, the mortgage buy-down program would work as follows:

Mortgage Interest Rate		
Existing Home	**New Home**	**Minimum Energy Reduction Target**[2]
4.0%	4.5%	HERS 70 (30% below IECC 2006)
	4.0%	HERS 50 (50% below IECC 2006)

Source: 2030, Inc. / Architecture 2030

1 Equivalent rating systems may be used. For more information, see 'Meeting the 2030 Challenge Through Building Codes' at www.architecture2030.org/news/multimedia.html.

2 Equivalent rating systems may be used. For more information, see 'Meeting the 2030 Challenge Through Building Codes' at www.architecture2030.org/news/multimedia.html.

To qualify for the lower interest rate, new homes need only meet or exceed the minimum HERS 70 or HERS 50 rating. For existing homes, the homeowner must meet both the minimum HERS 70 rating and invest a minimum amount in energy efficiency and/or renewable energy systems (which is added into the new mortgage). The minimum amount required to be invested is double the cost of the 1% buy-down and is dependent on the amount of the mortgage as illustrated in the following table:

Mortgage Amount	$150,000	$200,000	$250,000	$300,000	$350,000	$400,000
Cost to State or Local Govt. of Buy-Down (1.0%)[3]	$6,000	$8,000	$10,000	$12,000	$14,000	$16,000
Minimum Homeowner Investment	$12,000	$16,000	$20,000	$24,000	$28,000	$32,000

Source: 2030, Inc. / Architecture 2030

Although the homeowner would be responsible for refinancing costs, these costs will often be offset by available solar, energy efficiency, and other related tax incentives.

The Return on Investment: Everybody Wins

The pairing of interest rates and energy reduction targets turns out to be economically powerful, both creating an immediate demand for construction jobs and generating significant private spending. For example, if a homeowner wanted to **refinance a $200,000, 6%, 30-year mortgage at a 4% interest rate**, the home would need to be renovated to meet a HERS 70 rating (30% more efficient than that required by the latest energy codes), immediately creating jobs by putting construction teams back to work. To qualify for the program, the homeowner must invest a minimum of **$16,000 in efficiency measures**[4], thereby generating much-needed private spending. However, even with the cost of the efficiency upgrades **added into the new mortgage**, at the lower 4% interest rate, the homeowner would pay a minimum of $168 less each month. Add to that an additional savings on energy bills of approximately $60 and the homeowner would **save $228 or more every month**. In addition, homeowners can take advantage of the $1,500 federal energy efficiency improvement and 30% solar tax credits, as well as any local incentives that apply.

The plan also encourages new home buying with reduced mortgage interest rates of homes meeting a HERS 70 and HERS 50 rating. For each new home sold under this plan, $1 of stimulus money generates about $42 of private investment.

It is this ability to generate large amounts of private spending that so effectively leverages each stimulus dollar. As a result, the 14x Stimulus plan generates 14 times the amount of stimulus funding in private spending and 14 times the number of jobs that would have been created by the stimulus dollars alone. To leverage the government funding 14 times, 70% of the stimulus dollars must be allocated to buying down existing home mortgage rates, 20% must be allocated for new home mortgages (HERS 70), and 10% must be allocated for new home mortgages (HERS 50).

For example, if a city or county invests $1 million of its stimulus dollars and $1 million in additional state stimulus matching funds ($2 million total), the plan would generate $28 million in local private spending and create 436 new jobs. The federal government would be paid back $6 million in new taxes, triple its investment, with an additional $2 million in new tax revenue going into city, county and state coffers. An incredible return on investment. The more money invested, the greater the return.

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3 Assumes the cost of a 1% mortgage rate buy down is 4 points (or 4% of the mortgage amount).

4 This example assumes that the homeowner qualifies for a 5% rate. The homeowner is responsible for the refinancing costs associated with refinancing from their current rate of 6% to the new rate of 5%. The 1% buy-down then lowers the rate to 4%.

It is also likely that, with lower rates and increased savings, homeowners will take advantage of the construction team being on site to do additional renovations - fix a bathroom, add a bedroom, remodel a kitchen – spending even more. In this case, the return on investment would be even higher, making this strategy even more effective.

The Urgency: Seizing the Opportunity

The private building sector represents 93% of total U.S. building stock while the public building sector represents only 7%. The economic health of every U.S. industry is tied to the private building sector, especially housing. This includes everything from steel, insulation, caulking, mechanical and electrical equipment, solar systems, glass, wood, metals, tile, fabrics and paint to architecture, planning, design, engineering, banking, development manufacturing, construction, wholesale, retail and distribution. Simply put, if we do not stimulate building construction, specifically, renovation and home building, we will not revive the U.S. economy in any substantive and lasting way.

In order to capture the job-creation and private-spending potential of the private building sector, the new 14x Stimulus plan encourages households off the sidelines and into the renovation and home-buying market. However, there are many other benefits to the plan, including reduced risk of mortgage failure, increasing home values, more disposable income for homeowners, jobs to those who will pay federal taxes, a new market for material and product manufacturers, and dramatically reduced home energy consumption and greenhouse gas emissions. The result is that, with a single solution, we can address the economic crisis, move the country toward energy independence and begin to tackle climate change.

There are few opportunities that come along that allow us to address several major crises at once, but this is definitely one. We cannot afford to let this opportunity slip through our fingers.