



SHEET METAL AND AIR CONDITIONING CONTRACTORS' NATIONAL ASSOCIATION

January 25, 2010

The Honorable Barack Obama
President of the United States
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear President Obama:

The Sheet Metal and Air Conditioning Contractors' National Association (SMACNA), is supported by more than 5,000 contributing construction firms engaged in industrial, commercial, residential, architectural and specialty sheet metal construction throughout the United States. As President of SMACNA, I want to express our enthusiastic appreciation to you for featuring energy efficiency as a key part of the American Recovery and Reinvestment Act (ARRA) signed into law in 2009. Our member small business firms and their employees are benefitting from this massive federal construction and tax incentive based effort to promote public building energy efficiency, building retrofits and building related infrastructure projects. Not only are employees being retained on the job, many are being called back to work thanks to these projects. Once 2009 tax returns claiming the credits and rebates for energy efficient investment are filed the new activity stimulated by the ARRA should be documented and made clear for all.

From a survey we conducted of our member companies we found widespread evidence and detailed examples (attached) of where the efficiency tax incentives, rebates and program support for retrofitting residential structures has stimulated economic and job growth. SMACNA is confident that the Act's long list of green building infrastructure tax incentives designed to leverage billions of dollars in private sector green construction and retrofit activity will be of critical value to the residential, commercial and industrial sectors in the coming years. Importantly, this historic level of energy efficiency investment will yield substantial paybacks for the environment and in savings on energy bills for many years to come.

While the American Recovery and Reinvestment Act has only been law for months and major portions are still being rolled out in energy efficient projects nationwide over the coming months, it has been an unqualified success in increasing the Nation's energy efficiency. More encouraging for contractors in the residential HVAC market is the major positive impact the ARRA has had on improving energy efficiency and generating business in regions of the country hardest hit by economic recession. The stimulus package contained a targeted package of tax deductions and tax credits grouped with other incentives to generate jobs in the energy efficiency markets as residential customers upgrade antiquated, inefficient and costly heating, ventilating and air conditioning equipment. The evidence coming in daily from real contractors and home owners is unequivocal: jobs



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are being created, jobs are being retained, contractors are earning profits and home owners are making major upgrades in energy efficiency while saving big on their utility bills.

To reach this positive assessment, business associations reached out to HVAC contractors for their views on the Recovery Act's impact on their business and energy efficiency from across the country. Most surprising was the finding that even in the most depressed areas contractors reported positive market impact and big advances in energy efficiency directly in response to the efficiency tax credit.

Contrary to the media criticism over the value of the stimulus, our firms know ARRA has worked and they have benefited greatly. Since days after these incentives and efficiency projects were enacted and promoted by our members to their clients it has made a positive improvement in our markets and our bottom lines.

On behalf of our members and their employees I want to thank you for your commitment to making the United State a nation dedicated to energy efficiency and environmental quality. It bodes well for our industry, our environment and our economy.

Sincerely,

A handwritten signature in cursive script, appearing to read "John Lindemulder".

John Lindemulder
President

The following examples speak for themselves:

“The Sheet Metal and Air Conditioning Contractors National Association (SMACNA) representing more than 5,000 firms in the commercial, industrial, residential and public markets has heard unanimous contractor support for the ARRA tax credits for high efficiency equipment upgrades from residential contracting small businesses. “Our members find customers are most impressed to learn that the ARRA also includes tax credits for geothermal heat pumps, solar photovoltaic cells, solar water heaters, and fuel cells, also modified starting in 2009. Contrary to the media criticism surrounding the stimulus, our firms have already benefited greatly from the Stimulus Act’s tax incentives and have since they were enacted and promoted aggressively by our members. The market response has been positive in each product segment”.

John Lindemulder – President SMACNA

“The biggest market improvement concerns geothermal (or ground-source) heat pumps. As long as placed in service starting in 2009 are now eligible for a tax credit for 30 percent of the cost, with no maximum. These credits are amazingly effective now even though they will last through December 31, 2016. In order to be eligible for the tax credit, geothermal heat pumps must meet Energy Star criteria and that is not onerous for our firms or the customers. Solar hot water heating and photovoltaic power systems placed in service by December 31, 2016 are also eligible for the 30 percent credit, as are small wind systems. All these are now on the menu for our clients and we expect the market to really take off as knowledge of the incentives gains in the media and amongst the public”.

Eli Howard, Technical Programs Director – SMACNA National Office

“The market has really changed thanks to the federal tax credit that went into effect earlier this year. The 30 percent tax credit (with a \$1,500 cap) that is available for homeowners who replace their existing heating systems with 95-percent AFUE gas furnaces has resulted in some contractors changing their sales advertising to feature the highest efficiency mechanical systems... and it now works with a receptive customer. Whenever a homeowner has the opportunity to install the high efficiency system at approximately the same cost of a standard efficiency system it is quickly seen as a win-win situation for both the contractor and the homeowner. Importantly, our energy efficiency increases and our effort seeking carbon reductions advances. Conventional gas furnaces and central air are most common in the Midwest and I feel strongly that the tax credit—is not only a big boost to our business-- it also helps the customer, the HVAC dealer, the distributor, the manufacturer - everyone.”

Randy Novak - Cedar Rapids, IA - HVAC Contractor

“Thanks to the ARRA incentives for energy efficiency we find it easier to sell the highest efficiency HVAC equipment. We offer clients a 95 percent single-stage furnace for the good level, then we might offer a two-stage 95 percent furnace for the better level, and a two-stage 97- to 98- percent efficient furnace would be the best level,” “Now that the tax credit is in effect, we basically only install 95-percent and above furnaces after selling close to a third of our units at the highest efficiency levels in 2008 and less before that.”

Dave Katt – Heating and Air Conditioning Company - Racine, WI

“My company has definitely benefited from the tax credit in many ways. It encouraged customers and potential customers during roughest of economic times in Michigan to be receptive to the discussion that this is the time to upgrade efficiency in HVAC. Combining the credit, the utility company rebates, and Association / local union energy rebates, we finally had a winning season, and allowed us to compete with our non-union counterparts selling low efficiency and low price versus high efficiency systems that would save energy over many years.”

***Jeffrey Laski Sheet Metal and Heating Sales Company
Southfield, Michigan***

“The tax credits are unquestionably a terrific option to present to customers, as long as contractors first focus on meeting their customers’ needs, ensuring that they have the most efficient, safe, and reliable equipment for their homes.”

Carrol Basham, Rheem Heating and Cooling.

“Manufacturers have definitely seen an increase in the sales of premium gas furnaces with the advent of the tax credit. Over the past several years, sales of high-efficiency gas furnaces have increased for both the Goodman and Amana brand product lines. “It appears that since the introduction of the federal tax credits, we have witnessed a more aggressive increase in the sales of tax credit qualifying gas furnace products. Currently, a high-efficiency gas furnace is our best selling model.”

Jim Fisher, product manager, Goodman Manufacturing

“According to the 2005 Residential Energy Consumption Survey, 39% of the residential central air conditioners and 60% of residential heating equipment were more than 10 years old. Since 1990, only 30% of commercial buildings have had their main heating equipment replaced, and only 37% have had their main cooling equipment replaced. These efficiency credits and deductions really work to stimulate changes to these older systems to bring them to the higher efficiency long needed in residences. Now we need incentives for the commercial and industrial retrofits.”

Stan Kolbe SMACNA, Inc - Washington, DC

“In the northwest we are in gas territory in city and suburbs and heat pump with propane territory in rural areas. We have seen the ductless heat pump market really take off after the ARRA Incentives in the stimulus act were passed. We can’t get Mitsubishi ductless split HVAC systems fast enough and in this market that is amazing to us. Further, not only do most all of these efficiency upgrades easily qualify for federal incentives, they also get utility rebates of \$1,500 via Bonneville Power, and are cheaper than ducted systems, making them perfect for homes with baseboard or cadet electric heat.

- Ducted Heat Pump – Excellent incentives from ARRA and through our local utility (10 year financing or rebate money) on systems making a basic HSPF.
- Gas – 95% AFUE is an incentive that worked right away. Working well overall for high end / higher efficiency systems, as we are a Trane Comfort Specialist, down-flow single speed 95% AFUE are not out until January. Straight forward and simple incentives for federal tax credits and deductions, plus local gas utility available makes a big impact for us.
- Geothermal – We are getting into the heat pump lines thanks to the 30% federal ARRA incentives (none of which counts against the \$1,500 weatherization incentive). These really work.

Our wholesale partners are now busy doing system design and heat loss sizing for our projects. Depending on difficulty and cost of trenching this can be a very economically feasible application in the rural areas where there is large tracts of land. Our state forgives 10% sales tax on these in addition to federal incentives. The local utilities give improved financing and rebates for geothermal over heat pump too.

- Air Conditioning Retrofits – If people want AC we usually promote to them the option of adding a heat pump to propane or gas (hybrid) as this combination has huge payback to customers due to the incentives.
- Solar – Also 30% incentives, solar hot water is feasible for those with Jacuzzis or swim pools. Photovoltaic (PV) is generally sought after by efficiency-conscious customers thanks to the incentives and energy savings. We have added a Viessman solar hot water in our showroom area with a big sign saying ‘solar powered’ with our logo on it to promote hot water.

We are also a full electrical contractor and are capable of putting in PV One area I am now looking into - thanks to the Recovery Act incentives - is wind power, as being close to Puget Sound this now is a far better payback. There are significant state incentives for PV, especially if they are made locally (in nearby Arlington, WA), and no sales tax for both solar hot water and PV. There are also utility incentives for both PV and solar hot water.”

Russ Kimbell – Seattle, WA area HVAC Contractor

“The fast answer is yes! – The Stimulus Act’s tax credits have made a big difference for us in many ways and all are positive. Our sales team indicates that for 8 out of 10 prospects the tax credit is a very big deal. One interesting aspect is the fact that some manufacturers had to hurry up production on a 95% furnace that didn’t have all of the bells and whistles that they originally had because for the tax credit to work the furnace had to be competitively priced and available when demanded.”

George Welch – Welch Heating and Cooling Company St. Louis, MO

“With the help of the tax credits along with utility incentives and manufacturer rebates, homeowners have the purchasing power necessary to install systems that are higher in efficiency for close to the same cost as installing a standard efficiency system. Because of the rising cost of energy and the resulting need to save money, we expect to see homeowners continue to take advantage of these combined incentives and see the 90-plus furnace market steadily grow.”

IL HVAC Contractor

“The Stimulus Bill --The American Recovery and Reinvestment Act (ARRA) has been a major help to us-- our customers that would normally replace a 92% furnace and 14 SEER central air are upgrading to 95% furnace and 16 SEER air to take advantage of the 1500\$ tax credit. This gets a more efficient system in the home and ups our average sale price. I would say that 1 out of 8 customers choose this route.”

Iowa Sheet Metal Contractor

The story on the Obama Administration tax incentives for energy efficiency is RIGHT ON. The media do not mention though that most of the manufactures (to compete with each other) are offering 95 per cent efficient furnaces (single stage) for the same price as a standard 90 because the market has shifted to higher efficiency.”

Jeff Laski – Sheet Metal Heating Sales Co. Southfield, MI

“We are really promoting and succeeding with these energy efficiency tax credits in the Stimulus Act. Virtually all our customers now take advantage of the highest efficiency HVAC units and subsequently we all benefit – energy users and small businesses and the environment in Iowa and beyond. Our number of replacement HVAC unit sales is about where it was 2 years ago in a very good year and we are in a deep recession now so that explains why we are pleased with the stimulus incentives. What we can say is that virtually all our customers are upgrading to the most efficient equipment because of the ARRA incentives. In the past that number was only about 1/3. They could not have come at a better time for our company or our skilled workforce.”

*John Ilten Past President, SMACNA
President, Ilten's - Cedar Rapids, IA*

Another member recently commented that in the first five months the credits provided a big boost to their sales, leading to a 20% increase in replacements over the last year. The stimulus bill's impact has been felt in both the heating and cooling markets. A HVAC contractor member from a northern state has seen a **doubling** of the purchase of qualified furnaces. Another northern state contractor said that his customers “are replacing functioning furnaces in order to take advantage of the tax credits and get a more efficient unit.”

The ARRA's higher value tax credits are helping homeowners elect to replace equipment that may be in need of repair, reversing a three year trend in the industry. We are having a year more like 2007 (**our best**) than 2008 when we were off 15% gross sales as far as residential service is concerned. We find our members replacing marginal but functioning units that are still working - but the customer sees this period as a time to go ahead and make the switch to high efficiency.”

“The small business interest in and sales of geothermal equipment has also seen a big increase by energy efficient contracting businesses. According to comments from a contractor in the Midwest, “the boost to the geothermal systems has been very persuasive with clients and easy to understand by small business contractors.” My own company has seen geothermal go from a small part of my HVAC business in June 2008 to a third of my business by summer 2009.”

It is easy to see why there are so many studies and market projections of job creation and economic development opportunities from the burgeoning “green movement”. The majority of residential and commercial HVAC equipment sold in the United States is manufactured and warehoused in the United States. And the installation jobs held by contractors cannot be exported.