

From Policy to Practice:
The Critical Role of Contractor Credentialing in the
Success of Inflation Reduction Act Programs

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Introduction

Small businesses drive the U.S. economy. According to the U.S. Small Business Administration, small businesses of less than 500 employees make up 99.9% of all U.S. businesses and 44% of U.S. business activity (Rowinski, 2022). A significant segment of small business are home service companies, such as plumbers, electricians, Heating, Ventilation, and Air Conditioner (HVAC) contractors, and a growing number of energy auditors and home performance companies that employ house-as-a-system strategies. Each year in the U.S., three million heating and cooling systems are replaced and \$14 billion is spent on HVAC services or repairs. Heating and cooling account for about half of a typical home's energy usage, making high performance HVAC systems critical to managing energy consumption and costs for individual homeowners as well as cumulatively across the nation (U.S. Department of Energy, n.d.).

These small businesses will be the engine to modernize the nation's housing stock, employing millions of skilled workers, and delivering the goods and services that qualify for Inflation Reduction Act (IRA) tax credits, as well as the included HEERA and HOMES rebates. However, the success of the IRA programs can be threatened by fraud, waste, and abuse, which can undermine their intended goals and erode public trust in government initiatives. As a result, understanding and properly managing the heterogeneity of the contractor landscape is essential to (1) protect taxpayer funds when rebates are dispersed, and (2) ensure lasting marketing transformation long after incentive dollars have been exhausted.

The good news is that there are a significant number of excellent home services companies that operate at an exceptionally high level. These firms:

- deliver excellent customer experiences;
- develop their workforce and offering career pathways for their employees; and,
- follow proper design and installation practices to deliver technical quality of their installations.

At Pearl, we see companies that are investing in new technologies to manage their businesses - from inventory control, to customer relationship management software, to smart tools and technology to help monitor and deliver consistent quality through all of their crews. We even see these firms developing their own in-house learning management systems (LMS) to create an excellence corporate culture and dedication to quality. These high-quality companies are also dedicated to delivering customer value. For some businesses, that means staying focused on their specific trade speciality (solar, HVAC, electrical, etc.). For other businesses, that means expanding into new lines of business (such as adding plumbing, insulation, or electrical services to their traditional offering). After all, once they have acquired a loyal customer through an excellent customer experience, both the contractor and the customer want to transact with each other on additional home upgrade opportunities.

The bad news: virtually every homeowner has had at least one - and often multiple - poor experiences with a contractor. Low costs of entry and a race-to-the-bottom, lowest-cost-wins-the-work mentality has resulted in a significant number of businesses (and sometimes, not even a business) offering residential improvement work. These contractors are not necessarily incompetent or ill intentioned. But knowing a trade or skill does not equate with running a good business. Many small contractors have achilles heels that result in numerous deficiencies - whether that's lacking the aptitude to properly manage a project, or being unable (or unwilling) to efficiently pull permits and comply with industry standards, or not being capable to hire and retain talent, or in not keeping up with the latest technology, but just doing things the way they've always done it. These same contractors will likely be overwhelmed by the complexity of the HOMES and HEERA rebate programs. Ironically, these contractors may be the ones that are most eager to jump in and offer the rebates to their customers.

The ugly news: poor program design and implementation can drive rebates funds away from the high-quality contractor business and towards the lowest quality contractors. Programs that are designed on the assumption that contractors are inherently untrustworthy, and therefore incorporate overly bureaucratic and costly quality assurance and quality control rules will drive the high-quality contractors away from the rebate programs. High-quality contractors are process-driven, which is foundational to their success. They evaluate business opportunities, develop a business plan, and act on that plan after they understand the risks and benefits. They also look at how these opportunities impact their inventory, their workforce, and their customers' journey. Rebates programs that are complicated, inconsistent, change frequently, or are otherwise disruptive to the efficiency of their operations do not present good business opportunities for these firms.

Identifying appropriate contractors that should participate in the rebate programs is all the more essential due to the fact that properly designing and installing improvement measures will be of paramount importance as IRA HOMES rebate programs are rolled out, entrusting billions of dollars to the states and tasking each of them with the development of programs connecting homeowners with contractors who meet specific requirements. These requirements are, in fact, part of the language of the legislation itself, "For quality monitoring to ensure that each home energy efficiency retrofit for which a rebate is provided is documented in a certificate that — (A) is provided by the contractor and certified by a third party to the homeowner; and (B) details the work performed, the equipment and materials installed, and the projected energy savings or energy generation to support accurate valuation of the retrofit" (U.S. Congress, 2022).

This white paper aims to provide an analysis of the role that Contractor Accreditation and Third-Party Certification of rebated measures plays in achieving market transformation and preventing

fraud, waste, and abuse in federal and state rebate and tax credit programs, particularly in the context of the [Inflation Reduction Act \(IRA\)](#). The key topics will cover:

- What standards should be in place for a contractor to be eligible to offer rebates?
- What is the role of a third-party to monitor the contractor's work?
- How do these efforts minimize the risks of fraud, waste, and abuse and maximize the intended outcomes of the IRA legislation?

By exploring the background and best practices around real-world quality assurance mechanisms, this paper seeks to inform and empower stakeholders to take decisive action in not only implementing effective contractor oversight in order to prevent fraud, waste, and abuse - but also to support the professionalism of the residential contracting industry, which includes supporting the employers and employees that will be the engine to modernize the nation's housing stock.

What Standards, if Any, Should Be In Place for a Contractor to Offer Rebates?

The launch of the rebate programs will likely create a rush of consumer demand and a willingness of many contractors to participate in the program. Some contractors will be highly qualified to deliver the measures, understand the whole-house energy and building science implications of those measures, and manage both installation process as well as the rebate process. Other contractors will want to participate - and, in good faith, think they are prepared. But they don't know what they don't know - and might unintentionally create more harm than good, resulting in a poor customer experience and bad publicity for the rebate program and for the state. A (hopefully very small) minority might be fly-by-night operations that just want to get while the getting is good.

In the very near future, therefore, it is going to be incumbent upon each state to determine specific criteria and measurement frameworks through which they are able to differentiate between three groups in the distribution of funds:

- Highly-qualified contractors who can and should help bring this landmark, multibillion-dollar initiative to life;
- Good contractors that may need assistance to ensure that the public funds are properly spent to meet intended outcomes.
- Contractors that cannot and should not be entrusted with these funds.

The role of monitoring the quality of contractors that offer rebates goes far beyond HOMES provisions of the IRA. If unqualified contractors design and install measures under HEERA rebates or for work that is eligible for 25C tax credits, homeowners (and our nation) may not attain the expected energy savings. In fact, poor installations may do more harm than good - resulting in increased energy usage,

reduced indoor air quality, comfort problems, or creating the public perception that certain technologies simply don't work (e.g., heat pumps) or that the entire approach to whole house residential energy efficiency is broken. The need to identify, support, and reward high-quality contractors will be paramount to the success of the program. The decade-long provisions in the IRA are a means to an end. While the rebates and tax credits are meaningful, their impact will be limited to a small fraction of homes that need to be retrofitted in order to address climate change. A desired outcome of IRA is to help stand up a sustainable industry of small businesses that will continue the types of work that are incentivized in the legislation.

With that in mind and looking ahead, perhaps the most important question to ask is not simply “How can IRA-related programs ensure quality installations?” but, “How can we ensure or maximize quality installations post-IRA in a free-market setting?” Central to any solution will be two core elements:

- Embedding a commitment to quality into contractors' business operations — and communicating the importance of that commitment to homeowners.
- Leveraging technology so that crews, business owners, and homeowners have transparency into how effectively home-performance solutions have been delivered. Technology will play a key role, particularly when it comes to monitoring or measuring the impact of a given solution.

Part of the challenge, of course, is that the majority of states have limited experience building, sourcing or recruiting such qualified contractor networks heretofore. This is a key consideration.

The other, no doubt broader challenge, is how to drive true market transformation through the programs of the IRA. For that reason, state programs should not create or mandate oversight infrastructure reliant on program funds, but rather look to build effective processes that will persist beyond IRA funding.

So what makes a good contractor? Technical competence in their trade? A culture of delivering value by proposing solutions that meet their customers' needs and not simply selling products? Answering the phone and showing up on time? Supporting their employees with training and technology? The answer is yes. All of the above and more. Pearl defines the process of vetting the quality of contractors as Contractor Accreditation, which is a term used by other organizations like the Building Performance Institute (BPI) and the Air Conditioning Contractors of America (ACCA).

Effective Contractor Accreditation will enable program administrators to protect IRA programs against many of the salient risks to overall program integrity. But it's worth asking: What Contractor Accreditation standards — or qualities — make the most sense in the context of the IRA?

Pearl's Accreditation process focuses on a contractor's quality management system (QMS). A QMS centers on the firm's ability to understand, manage, measure, deliver, and improve on quality outcomes. We have found that a contractor's QMS focuses on four (4) key elements:

1. Quality Governance
2. Quality Workforce
3. Quality Customer Experience
4. Quality Business Operations

Part of the Accreditation process is to ensure that a contractor meets a minimum threshold. If they don't, they can't participate. But an equally important objective is to perform a gap analysis, learn where improvements can be made, and help these small businesses to invest and grow. We have found some contractors that have incredibly deep expertise on building science and quality installation best practices, but struggle to manage multi-day projects, or in hiring and retaining talent. Other contractors have scalable business systems, and deep expertise with one trade, but struggle to add a new line of business. We have found that the company culture, mission, and leadership are of paramount importance, which are elements in the quality governance category.

Successful deployment of a QMS has a number of benefits, including:

- **Superior Customer Service:** Contractors should maintain excellent customer ratings on review sites, have business systems in place to monitor customer satisfaction, have appropriate policies to address customer complaints, and — as applicable — maintain a good history with the Better Business Bureau.
- **Business Best Practices:** Contractors must maintain all licenses, pull appropriate permits, and maintain appropriate insurance levels.
- **Success at Sustainable Growth:** Growth is often measured in revenue, employees, or locations. But sometimes growth can be defined as growing knowledge — understanding the business and investing in systems to improve the delivery of goods and services to customers.
- **Commitment to Quality:** Contractors should actively support their workforces with technical and sales training, as well as supporting employees to grow professionally and advance in their careers.
- **Commitment to Community:** Contractors should be able to demonstrate a commitment to the communities they serve, whether that community is defined locally or globally.
- **Technical and Thought Leadership:** In addition to maintaining staff credentials for their trade(s), contractors should be engaged with their industry associations and tracking emerging trends and technologies. They also shouldn't overreach — for example, a solar-only contractor shouldn't certify all the features of a heating and cooling system, and vice versa.

How these or similar objectives are ultimately implemented is going to be determined on a state-by-state basis, of course. But if states opt to pre-qualify contractors prior to program rollout, for example, the above objectives will enable them to far more effectively ensure that all contractors have the

necessary qualifications to design and install IRA-rebatable measures for HOMES modeled and measured, as well as HEERA. (Ideally, this would also obtain for 25C tax credits.) Either way, creating comprehensive guidelines and checklists for contractor vetting is a simple best practice and policy recommendation for states across the board.

From a high level, these IRA programs should focus less on enforcing quality control *externally*, and instead commit to embedding key quality control and quality assurance practices into a contractors' business operations and development in a way that strengthens their own quality management system (QMS) *internally*. In this respect, at least, the IRA should be viewed as a unique opportunity: a chance to expand the professionalism of the home-services industry and make high-performing home upgrades a sustainable, value-driven proposition for contractors. At the same time, of course, this does not entail setting up an entirely new industry from scratch. There are a significant number of existing businesses that have some (if not all) of the skills and business systems required to install IRA-rebatable measures, including in the HVAC and solar trades.

Finally, simplifying and accelerating the credentialing process, without compromising quality, is an area where technology has the potential to unlock tremendous value by fostering new channels for communication and enhancing collaboration between stakeholders. For example, online platforms and databases capable of facilitating real-time access to contractor information, documentation, and verification would expedite the credentialing process. Meanwhile, the adoption of intelligent data analytics tools would help identify patterns and trends that might indicate fraud or abuse, enabling government agencies to take swift and decisive action. There are also opportunities for government stakeholders to collaborate with original equipment manufacturers (OEMs), tool manufacturers, software providers, and other private-sector players to clarify what constitutes acceptable, verifiable, or certifiable data from the field.

Above all, the establishment of clear guidelines and requirements is going to be paramount in the evolution of the Contractor Accreditation process. But however this ultimately shakes out, contractors will need to meet rigorous qualification standards, submit certifiable data, and continuously work to improve the level of service they provide to homeowners. At minimum, these steps will serve to increase the level of accountability of contractors while helping to bring the goals of the IRA to life.

What is the Role of a Third-Party to Monitor the Contractor's Work?

While the IRA was patently designed to stimulate economic activity and growth, it also presents scenarios in which fraud, waste, and abuse could very well occur. A by no means exhaustive list of examples:

- Households “double-dipping” for the same upgrade and therefore receiving excess funds

- Households falsifying their income eligibility
- Households reselling rebated products
- Contractors or installers incorrectly combining rebates
- Contractors or installers carrying out inadequate installations
- Contractors or households submitting claims for work that has been carried out inadequately, or not carried out at all

The paradox, however, is that traditional governmental approaches to identifying and combating fraud or abuse can sometimes contribute to waste in and of themselves. Investment in costly, bureaucracy-led inspections, for example, often leads to unsatisfactory homeowner and contractor experiences. Similarly, unsustainably high costs have often been associated with quality assurance (QA) and quality control (QC) processes on a per-transaction basis. What's more, tasking third-party inspectors with overseeing a contractor's work is simply not scalable — which is not to say there isn't a role for traditional onsite verification of, say, quality installation compliance, but it should be limited and targeted to specific use cases. Such approaches, broadly applied, risk subverting the very market transformations they're intended to promote.

Given the risk that fraud, waste, or abuse may occur in conjunction with the implementation of the IRA, appropriate safeguards do need to be put in place. The reality, after all, is that the contracting industry, largely due to the low cost of entry, is filled with small shops, many of which should not be eligible to participate — that is, there are tens of thousands of contractors who have no business, literally or figuratively, installing high-performing home measures under the terms of the IRA.

For these reasons and more, it's worth contemplating worst-case scenarios in the context of fraud, waste, and abuse in order to mitigate or avoid these issues completely. For example, what is to prevent contractors from using rebate programs to install upgrades that actually result in higher, not lower, household energy bills? How might these actions disproportionately impact low-income households? What guidelines, tools, policies, or reviews can be implemented to prevent or discourage similar outcomes in the future?

The answers aren't simple, but a few things stand out. For starters, program design should proceed from the assumption that some contractors can in fact be trusted, rather than taking a one-size-fits-all approach that over-regulates high-performing contractors, even those that have a culture of quality as well as the appropriate business systems to effectively internalize quality assurance (QA) and quality control (QC) processes. To be sure, contractors should be vetted *prior* to having access to rebates, and they should be held accountable for the measures they recommend, as well as for the quality of those measures that are installed. That begins with the Contractor Accreditation process. To the extent that gaps

are identified in that process, contractors can receive assistance to help them grow their business, support their workforce, or invest in scalable technologies.

Additionally, every contractor should be required to provide the homeowner with a third-party-issued report documenting the specific improvements or measures installed. This documentation should use industry-standard terms that can be easily understood by homeowners, energy efficiency programs, real estate agents, appraisers, lenders, and other stakeholders. As part of this process, homeowners should also be able to review — and submit feedback on — their experience of the contractor as well as the program. Having this kind of tangible documentation makes the work much more transparent to all parties. It also significantly ups the ante in terms of accountability for contractors.

Finally, contractors should be required to meet baseline quality standards related to customer experience, project duration, energy savings, and other factors. Those that fail to do so should either be ineligible to offer rebates, or subjected to more rigorous oversight — potentially including penalties like file or field reviews, for example, which contractors would be required to pay for.

Contractor Accreditation and Market Transformation

It is virtually impossible to overstate the extent to which Contractor Accreditation best practices will factor into the relative success of IRA programs on a state-by-state basis. As we have discussed, Contractor Accreditation best practices can help mitigate the impacts of fraud, waste, and abuse by:

- Ensuring only qualified contractors participate in the programs
- Preventing overpayment and/or abuse of funds
- Maintaining program integrity and public trust

This is also where third-party certification systems come into play, since evidence suggests that third-party certification is the crux of any viable market for high-performing homes — and, in fact, the marketplace changes when third-party certifications are used properly. After all, third-party certification systems have the power to tie the financing, valuation, and performance of homes together, thereby creating an enduring marketplace for high-performing homes.

In this regard, the states can and should look to the private sector for examples of tools that meet the IRA's requirements for third-party certification that *details the work performed, the equipment and materials installed, and the projected energy savings or energy generation to support accurate valuation of the retrofit*. Ideally, these third-party certification systems should have a track record of the types of materials that are delivered to the real estate market actors - including agents, appraisers, and lenders - and empirical evidence that those materials have supported an accurate valuation of those features.

Additionally, state-level program administrators should leverage the existing language of the [IRA HOMES section](#) — specifically that pertaining to third-party-issued certification, issued on behalf of the

contractor, connecting home improvement measures to real-estate market values. To ensure the success of the end-to-end process, this certification should contain several key pieces of information, namely:

- The unique address of the household
- What exactly was installed
- Documentation of proper installation as well as the appropriateness of the installation (whether based on building science/appropriateness, based on program requirements for HOMES versus HEEHRA, or based on other restrictions)
- When the measures were installed, and by whom, in order to hold all relevant parties accountable for the accuracy of the information
- A secure registry / database that includes every certification issued, with portals so that homeowners, appraisers, and others can readily access all pertinent information, while protecting Personally Identifying Information (PII).

Finally, and no less critically, third-party certification also allows homeowners to build equity in their homes — and income-qualified communities are typically the most in need of this added equity. In this way, third-party certification specifically aligns with the IRA’s broad-based focus on supporting income-qualified communities. Going forward, in fact, this might even be considered one of the long-term metrics for evaluating the success of the program. Higher valuations for homes with assets installed as part of HOMES or HEERA could indicate that equity is staying in communities typically disadvantaged — and that communities of color, for example, are not only able to remain in their neighborhoods, but are reaping the benefits of that increased equity over time.

Conclusion: Strengthening Contractor Accreditation for a More Efficient and Trustworthy Rebate and Tax Credit System

In this white paper, we have explored the importance and role of Contractor Accreditation in preventing fraud, waste, and abuse within rebate and tax credit programs, as well as how IRA can foster market transformation by embedding quality practices into the residential contracting industry. An effective credentialing system is crucial for ensuring program integrity and maintaining public trust. Furthermore, we have identified best practices and recommendations to strengthen Contractor Accreditation and improve the efficiency and transparency of rebate and tax credit programs.

As we conclude, it is essential to emphasize the necessity of taking proactive measures to implement these best practices and recommendations. By doing so, stakeholders will be able to work together to create a more efficient, transparent, and trustworthy system for the benefit of all parties involved, including government agencies, contractors, and the public.

One of the primary aspects of strengthening Contractor Accreditation is the establishment of clear guidelines and requirements. By defining and clarifying credentialing requirements for contractors, government agencies can significantly reduce the risk of fraud and abuse, while also ensuring that contractors possess the necessary skills, knowledge, and experience to deliver quality services. Creating comprehensive guidelines and checklists for contractor vetting will help streamline the process and minimize potential loopholes that could be exploited by unscrupulous individuals.

Streamlining the credentialing process is another crucial step towards enhancing the efficiency of rebate and tax credit programs. Simplifying and accelerating the process, without compromising quality, can be achieved by leveraging technology and adopting innovative solutions. For instance, the use of online platforms and databases that facilitate real-time access to contractor information, documentation, and verification can significantly expedite the credentialing process. Moreover, the adoption of intelligent data analytics tools can help identify patterns and trends that may indicate potential fraud or abuse, enabling government agencies to take swift and decisive action.

Enhancing collaboration and communication among stakeholders is also vital for the success of Contractor Accreditation initiatives. Efficient communication between government agencies, contractors, and other relevant parties can significantly reduce misunderstandings and discrepancies, further ensuring program integrity. By fostering a culture of collaboration and information sharing, stakeholders can work together more effectively to identify and address potential risks and challenges.

In conclusion, the implementation of best practices and recommendations for strengthening Contractor Accreditation in rebate and tax credit programs is of paramount importance. By taking proactive measures and working collaboratively, stakeholders can create a more efficient, transparent, and trustworthy system that benefits all parties involved. These efforts not only contribute to the prevention of fraud, waste, and abuse but also help maintain public trust in the rebate and tax credit system. It is our hope that this white paper serves as a valuable resource and a call to action for stakeholders in their efforts to enhance Contractor Accreditation and ensure the continued success and integrity of rebate and tax credit programs.

Resources

U.S. Department of Energy. (n.d.). Heating, Ventilation, and Air Conditioning (HVAC). Residential Program Solution Center. <https://rpsc.energy.gov/tech-solutions/hvac>

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