

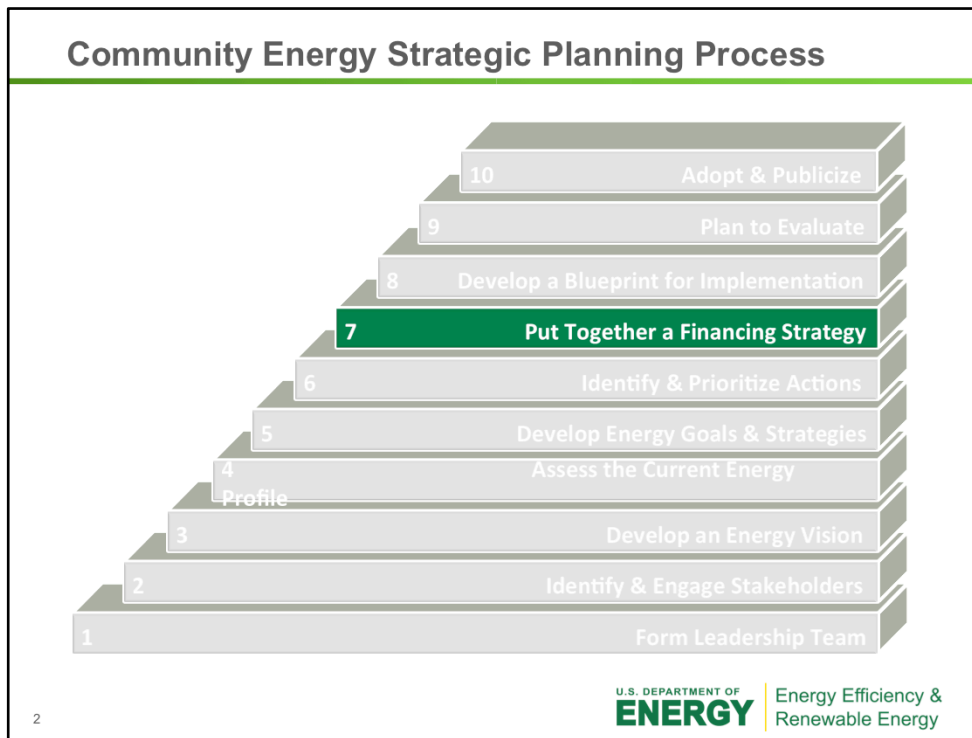
Community Energy Strategic Planning

Better Buildings Alliance



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Step 7
Put Together a Funding and Financing Strategy



Speaking Points:

WHAT: Identifying financing for the plan’s actions is vitally important to a successful CESP. Take the time to research options and get information from a wide range of sources, because

There is no single, easy answer – each jurisdiction will build a plan specific to their local conditions and CESP needs, and

Funding sources vary over time and among communities and states.

The discussion in this chapter is provided as an overview of available options and when each is applicable, with referrals to additional resources for more-detailed information.

WHY: Developing an overarching funding plan as part of the CESP allows:

Identification of appropriate financing for different activities.

Reducing the risk of missed opportunities.

Staging of short- and long-term financing.

Effective use of portfolios of financing.

Greater support and likelihood of adoption of recommendations once financing mechanisms are identified.

WHO: The Leadership Team will work with local government financial officials on this task. There will also be stakeholders associated with other financially related activities whose help could be beneficial, such as:

Regional or state officials, utility or other energy efficiency finance program administrators, or others involved in funding and finance programs.

Stakeholders from local financial institutions, such as banks, credit unions, foundations, bonding authorities, etc.

Engage these experts in your outreach, as part of a finance-focused stakeholder task force, or with individual interviews.

WHEN: Because this is a complicated area, it is useful to begin financing research and interviews early in the process. However, since there are advantages to building suites of financing solutions, be sure that the major framework of CESP activities is in place.

Step 7: Put Together a Financing Strategy

1. Understand financial requirements for different types of energy actions
2. Identify potential financing and funding sources
3. Design a suite of financial mechanisms for proposed activities



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Funding Sources for Local Government Projects

Type of Activity	Potential Source of Financing	Financing Mechanism
Capital Projects (Defined through a Capital Improvement Plan)	Annual Budget process - appropriated funds	Capital Improvement Fund Capital Reserve Fund Internal Revolving Energy Fund
	Banks and other mainstream financial institutions	Short-term bridge financing or long-term borrowing
	Bonding	Tax-exempt bonds Qualified Energy & Conservation Bonds (QECBs)
	Partnerships and third-party financial support	In-kind support EE or RE program rebates, or financing from utility, state, federal sources Grants
	Third-party ownership models	Leasing Power Purchase Agreements ESCO/ Performance contracting Energy Service Agreements

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Speaking Points:

Effective solutions can depend on:

- The scope of the work (internal government projects and operations vs. community energy activities).
- Who is conducting the activity (government itself, third party).
- The expected duration of the activity.
- Risk and risk tolerance.
- Relation to other financing mechanisms currently in place.
- Whether the local government decision-makers see this endeavor as a core government function – and are willing to increase ongoing budgets for CESP activities.

Funding Sources for Local Government Projects

Type of Activity	Potential Source of Financing	Financing Mechanism
On-going Government Activities	Annual Budget process - appropriated funds	General Fund; on-going budget and procurement processes
	New cash flow sources	Savings from previous EE or RE projects
		Taxes, enterprise fees, special assessment districts
		Income from RE projects - energy sales, RECs
	Partnership support	
Behavioral Changes	Policy directive - no \$\$ needed	

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Speaking Points:

There are some universal funding principles to remember while reviewing options and building a plan.

- Take advantage of the respective optimal use of short-term vs. long-term cash flows.
- Layer different flows of funds on top of each other to build redundancy.
- Reuse dollars through designing programs of energy activities and staging activities, rather than thinking about projects on an individual basis.
- Leverage/encourage private investment where appropriate, especially for community-wide programs.

Timing of costs and savings matter as well – take advantage of early savings opportunities. For example:

- Look for fast, easy ways to save in municipal operations, allocate a portion of the savings back to the agency or department that creates the savings as incentive to keep doing more, and use rest of the savings to reduce energy bill paid by taxpayers.
- Publicize early taxpayer bill reduction incentives to create and maintain support for ongoing CESP activities.

Funding Sources for Community Wide Plans

Type of Activity	Potential Source of Financing	Financing Mechanism
Ongoing support for <u>low-cost</u> activities	Annual budget process - appropriated funds	General Fund; on-going budget and procurement processes
	Leverage public/private partnerships	Utility programs Other EE/RE support Economic development organizations (including CDFIs); Grants
Ongoing support for <u>high-cost</u> activities	On-going cash flow	System benefit charges (for municipal or coop utility)
		Program fees
		Enterprise fees, special assessment districts; gross receipts tax Proceeds from settlements, lawsuits, and purchase agreements

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Funding Sources for Community Wide Plans

Type of Activity	Potential Source of Financing	Financing Mechanism
One-time funding to establish discrete programs	Lump sum project support or seed funding	Capital funding
		Grants
		Bonds - including QECBs
		Program-related investments

Power of Portfolios of Financing and Projects

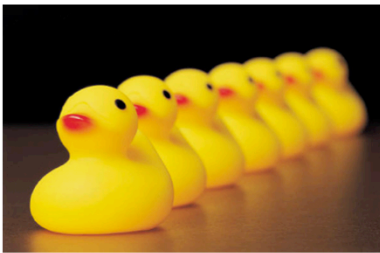
A portfolio of financing options helps:

- Reduce risk
- Allow for diverse project
 - Timeframes
 - Risk models
 - Restraints
 - Ownership structures
- Mitigate impacts of economic slowdowns, lost grants, and other risks



Value of Bundling Projects to Finance

- Consider costs, savings, and support for total portfolio rather than single projects
- A portfolio approach to project financing reduces risk
- Aggregate projects under a single financing structure to save through shared transaction costs and better credit rating
- Consider partnering with other local governments to achieve similar advantages



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Speaking Points:

Second Bullet: For example, projects with short payback periods can be combined with projects with longer payback periods to make the average savings over time more constant. This method helps governments install projects with longer payback periods, such as renewable energy projects.

Example: Bundling Projects for Effective Financing

Mold Remediation Project	
Total amount borrowed	\$500,000
<i>Rate and term – 4%; 15 yrs.</i>	
Total cost	\$665,719
Energy Efficiency Project - Lighting	
Total amount borrowed	\$454,510
<i>Rate and term – 4%; 15 yrs.</i>	
Total cost	\$605,152
Total net energy-associated savings (15 yrs.)	\$776,362
Combined Project	
Total amount borrowed	\$954,510
Total costs – including financing	\$1,270,871
Total cost net of energy-associated savings	\$494,509
Reduction in Net Total Project Cost	
	\$776,362

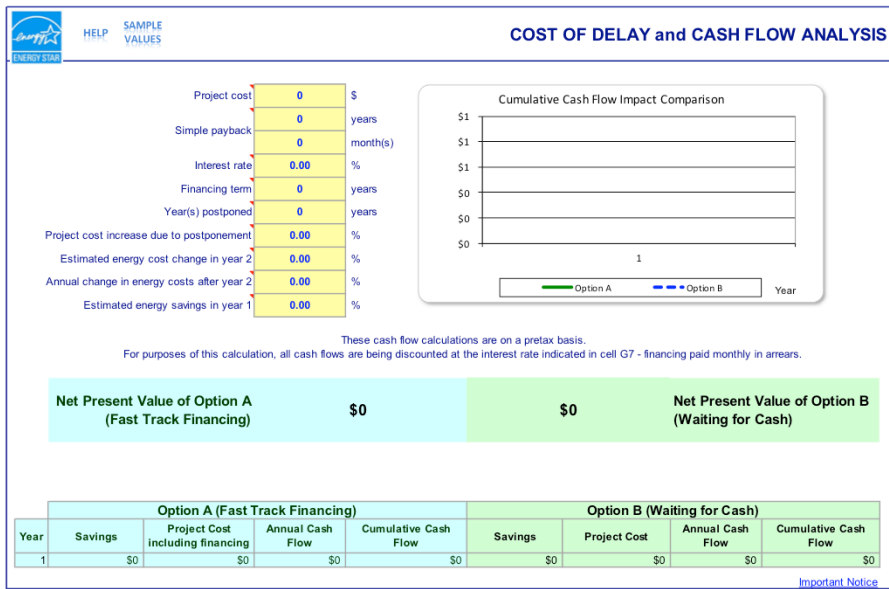
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Speaking Points:

An elementary school planned to issue a bond to raise funds for a mold remediation project. By combining this project with a much smaller energy efficiency project, they were able borrow funds for both projects at low rates, and reduce repayment costs below what they would have been for the mold remediation project alone.

The Cost of Inaction (Opportunity Costs)



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http://www.energystar.gov/index.cfm?c=assess_value.financial_tools

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Speaking Points:

Source: http://www.energystar.gov/ia/business/cfo_calculator.xls?74db-bdff

When considering energy investments, it is important to remember that there is an “opportunity cost” of taking no action. Even if energy prices do not increase in the future, the cost of taking no action has to be weighed when considering whether to implement a project now or in the future. EPA has developed a calculator to help decision-makers quantify the costs of delaying energy efficiency projects

Step 7: Tips & Tools

Tips

- There is a cost of inaction; the opportunity cost
- Consider adding energy saving requirements to all capital projects
- Grant proposal efforts are never wasted
- Develop relationships with the utilities, state energy office, and congressional delegation

Tools

- Template for Inventory of Potential Financing Activities

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Speaking Points:

- Add energy savings requirements to all capital improvement projects, or prioritize those projects that provide savings.
- The process of preparing a grant proposal often represents the most difficult part of a project. Even if a grant is not awarded, the existence of a work plan, with fully developed and documented project costs and expected energy savings, is a major step toward attaining other forms of support (leasing, bonding, etc.).
- Having a good relationship with the state energy office and the state's congressional representation can be very effective. State and senatorial/congressional staff can keep the local government informed about funding opportunities.