EPA United States Environmental Protection Agency
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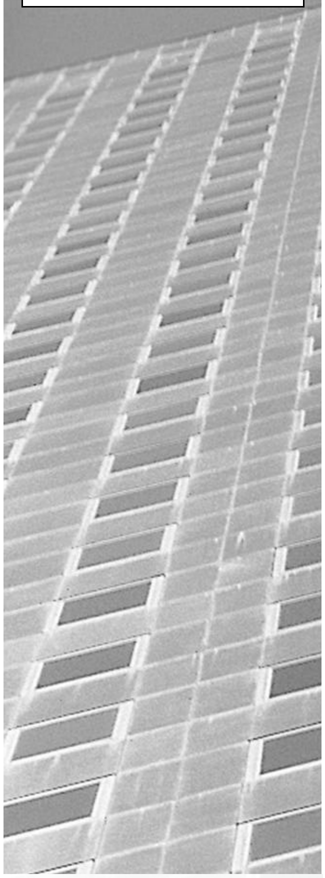
Money Isn't All You're Saving



ENERGY STAR® and

Easy Access to Energy Improvement Funds

Are you postponing the installation of energy efficiency projects because the money is not in your current budget? Do you need to obtain voter approval to take on additional debt? Do you find yourself weighing the benefits of installing energy efficiency equipment today against the hassles and expense of requesting new or additional debt? If you answered "yes" to any of these questions, you will be happy to know that there are several simple, fast, legal, and well-tested financing alternatives that may address your concerns.

The two most common public sector mechanisms are tax-exempt lease purchase agreements and performance contracts. A performance contract can be considered a finance mechanism because it bundles together with performance guarantees one or more of the following components: financing, equipment, energy costs, and maintenance. Both mechanisms are effective alternatives to traditional debt financing, and both may allow you to pay for energy efficiency upgrades by using money that is already in your utility operating budget. By spending only operating budget dollars, you may avoid the cumbersome capital budget process altogether. Both mechanisms will allow you to draw on dollars saved from *future* energy bills to pay for new, energy-efficient equipment *today*.

A tax-exempt lease purchase agreement, also known as a municipal lease, is closer to an installment-purchase agreement than a rental agreement. You will own the equipment after the financing term is over. One big benefit of a lease-purchase agreement is that the lessee's (borrower's) payment obligation usually terminates if the lessee fails to appropriate funds to make lease payments. Because of this provision, neither the lease nor the lease payments are considered debt, and payments can be made from the energy savings in your operating budget. Unlike bond issues, tax-exempt lease purchase financing usually does not require a voter referendum because it is considered an operating rather than a capital expenditure due to this *non-appropriation* language. However, lenders will want to know that the assets being financed are of *essential use*, which will minimize the risk of non-appropriation. In fact, your organization may already be leasing equipment, and it may be surprisingly easy to add your energy project to the existing leasing agreement, especially if your organization has a Master Lease in place with a lending institution.

Performance contracting also can provide an effective way to fund efficiency improvements, if savings can be easily measured and documented. Energy services companies (ESCOs) frequently assume the performance risk of the technologies they install and will often guarantee a certain level of energy cost savings that can be used to pay for new equipment and deferred maintenance. An ESCO may bundle in the financing needed to replace, repair, and maintain HVAC, control, and lighting systems as part of an energy performance contract. However, when evaluating

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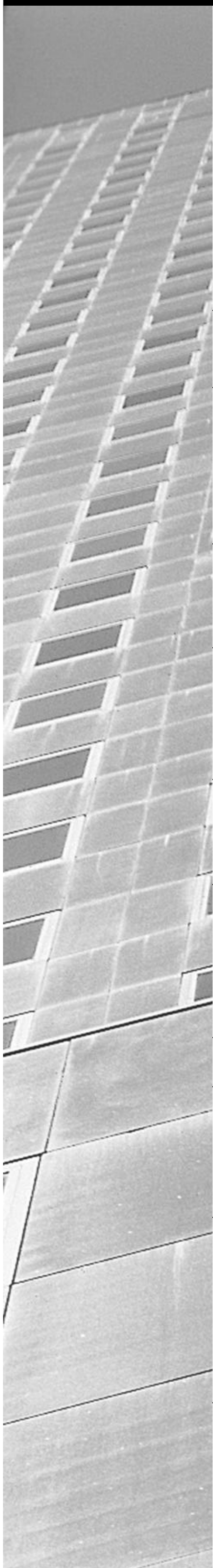
ENERGY STAR makes it easy to improve energy performance at home and in the workplace. It is a trusted national brand symbolizing superior energy performance in 30 categories of consumer electronics and appliances, as well as office buildings, schools, and homes. To learn more about ENERGY STAR, visit www.energystar.gov, or call the ENERGY STAR Hotline at 1-888-STAR-YES (1-888-782-7937).



performance contracts, you may benefit by separating the financing activity from the performance guarantees. By unbundling financing from equipment performance, you may be able to take advantage of lower, tax-exempt interest rates or combine this financing with the financing of other projects.

The following table summarizes the benefits of these two popular financing mechanisms and compares them against issuing bonds or paying cash. Remember that statutes vary from state to state, so be sure to ask your lender to ensure that the lease agreement complies with state provisions.

	CASH	BONDS	MUNICIPAL LEASE	PERFORMANCE CONTRACTS
Interest Rates	N/A	Lowest tax-exempt rate	Low tax-exempt rate	Can be taxable or tax-exempt
Financing Term	N/A	May be 20 years or more	Up to 10 years is common and up to 12-15 years is possible for large projects	Typically up to 10 years but may be as long as 15 years
Other Costs	N/A	Underwriting legal opinion, insurance, etc.	None	May have to pay engineering costs if contract not executed
Approval Process	Internal	May have to be approved by tax payers or public referendum	Internal approvals needed. Simple attorney letter required	RFP usually required, internal approvals needed
Approval Time	Current budget period	May be lengthy – process may take years	Generally within one day	Generally within 2-3 days once the award is made
Funding Flexibility	N/A	Very difficult to go above the dollar ceiling	Can set up a Master Lease, which allows you to draw down funds as needed	Relatively flexible. An underlying Municipal Lease is often used
Budget Used	Either	Capital	Operating	Operating
Largest Benefit	Direct access *if* included in budget	Low interest rate because it is a general obligation of the public entity	Allows you to buy capital equipment using operating dollars	Provides performance guarantees which help approval process
Largest Hurdle	Never seems to be enough money available for projects	Very time consuming	Identifying the project to be financed	Identifying the project to be financed and selecting the ESCO

For more information about EPA's free technical support for financing energy upgrades or to schedule a presentation on this subject, contact Julio Rovi, The Cadmus Group, Inc., a contractor working in support of ENERGY STAR, at (703) 247-6134, or e-mail finance@cadmusgroup.com.

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