STEP 7: PUT TOGETHER A FUNDING AND FINANCING STRATEGY

WHAT: The majority of actions recommended in a CESP will not be implemented unless someone chooses to fund them in some way. The cost to implement recommended actions will likely vary widely, from no-cost policy changes to capital-intensive infrastructure projects. Taking the time to identify opportunities to pay for these actions within the plan will increase the likelihood that they will actually be implemented. There are a variety of sources to fund projects, some of which take advantage of financing opportunities to provide capital in the near term, but ultimately need to be paid back by tax payers. While these financing opportunities are not "free money", their ability to access needed funds at strategic times can be a particularly valuable option for energy projects with often attractive returns in the form of reduced energy costs. Financing options vary in terms of risk profile and time horizon, and there are ways to structure these transactions and projects in order to minimize risk and align savings with repayment schedules. Take the time to research options and get information from a wide range of sources, because there is no single, easy answer. Funding sources vary over time and among communities and states, so each jurisdiction will need to develop a strategy specific to their local conditions and needs.

WHY: Developing an overarching funding and financing strategy as part of the CESP allows for:

- Identification of appropriate financing for different activities,
- Staging of short- and long-term financing,
- Effective use of portfolios of financing, and
- Greater support and likelihood of CESP adoption.

WHO: The Leadership Team will work with local government financial officials on this task. Stakeholders with financial interests should also be involved, such as:

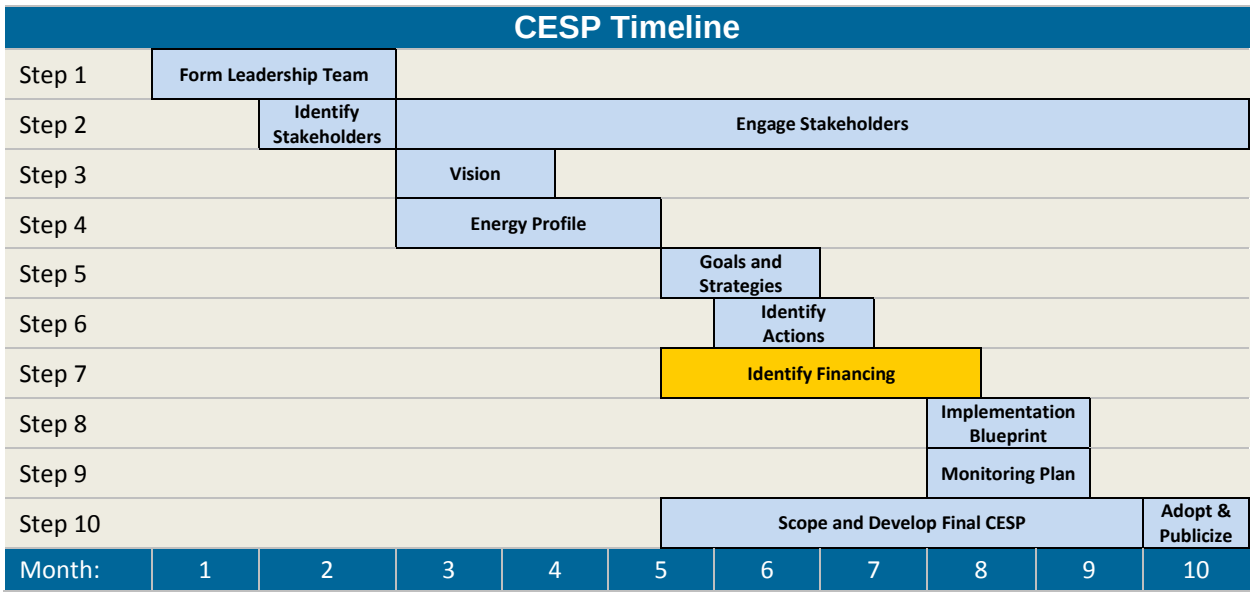
- Regional/state officials, utilities, or other energy efficiency finance program administrators; and
- Representatives from local financial institutions, including banks, credit unions, foundations, and bonding authorities.

HOW: To find appropriate financial support for the CESP, the Leadership Team will need to:

- Understand Financial Requirements for Different Types of Energy Actions
- Identify Potential Financing and Funding Sources
- Design a Suite of Mechanisms for Proposed CESP Actions

Engage these experts as part of a finance-focused stakeholder task force or with individual interviews. The Champion will also provide feedback during this step.

WHEN: Because designing a cohesive financing strategy is complicated and can take several months, it is important to begin financing research and interviews early in the CESP process. Initial conversations can inform the energy assessment (Step 4), so you may want to start your outreach then, and preliminary findings can help in the identification and prioritization of actions (Step 6). However, since there are advantages to building suites of financing solutions, be sure that the major framework of the CESP – vision, goals, strategies, and actions – is in place before getting too far into the design of the financing portfolio. The finance strategy will be finalized as a part of the implementation blueprint (Step 8).



Understand Financial Requirements for Different Types of Energy Actions

There is a very wide range of options available for paying for energy actions, but no single financing source is suitable for every program and/or unit of government. Thus, it is important to **understand the available options** and match appropriate funding types to actions that have been prioritized for the CESP. The tables on the following pages provide a high-level overview of different broad categories of CESP actions and potentially appropriate financing and funding mechanisms. It is organized as follows:

- For a **local government CESP** – organized by discrete projects vs. ongoing activities
- For government support of a **community-wide CESP** – organized by level and duration of support needed: ongoing support for low-cost activities; ongoing support of higher cost activities; and substantial one-time funding used to fund discrete projects or programs.

More information on specific mechanisms listed here can be found in the **Step 7 – Appendix**, as well as the Resources identified at the end of this section. For those that are unfamiliar but might be of interest, the Leadership Team may want to do some initial research. Then, working with local government financial officials and relevant stakeholders, begin to complete preliminary groundwork to determine which of the above options might work best for your CESP. Key questions to answer include:

- Which avenues have already been used, and/or which mechanisms are currently in place for energy activities? For other activities?
- Will local government decision-makers see this endeavor as a core government function, i.e., is the government willing to dedicate a portion of current revenue for CESP activities? Or is the government willing to create new taxes or fees specifically to support CESP activities?
- Is debt financing an option? Considerations include whether or not the government has an appetite for taking on debt; the creditworthiness of the government; and any relevant debt limits the state might have for local governments. If debt financing is an option, what will the challenges be?

For this step, the Leadership Team may want to establish a finance-focused stakeholder task force, with government staff, including financial officials, and representatives from energy efficiency finance program administrators and local financial institutions. This task force can take the lead on the tasks below, reporting to the Leadership Team.

Type of Plan	Type of Activity	Potential Source of Financing	Potential Mechanisms
Sources for Local Government Projects and Activities	Capital Projects – may be defined through a Capital Improvement Plan	Annual Budget process - appropriated funds	Capital Improvement Fund Capital Reserve Fund
			Internal Revolving Loan Fund (RLF) for Energy
		Banks and other mainstream financial institutions	Short-term bridge financing or long-term borrowing Financing arranged by ESCOs for ESPCs
		Bonding	Tax-exempt bonds
			Qualified Energy Conservation Bonds (QECBs) Clean Renewable Energy Bonds (CREBs)
		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 (PPAs)
	On-going Government activities: staffing, O&M, debt service, etc.	Annual Budget process - appropriated funds	General Fund, on-going budget and procurement processes
		New cash flow sources	Cost savings from previous EE or RE projects
			Taxes, enterprise fees, special assessment districts
			Income from RE projects - energy sales, renewable energy credits (RECs) Partnership support
	Behavioral changes	Policy directive – minimal $$ needed	

Type of Plan	Type of Activity	Potential Source of Financing	Potential Mechanisms
Additional Sources for Expansion to a Community-wide Plan	Ongoing support for low-cost activities: education, staffing, recognition programs.	Annual budget process - appropriated funds	General Fund, on-going budget and procurement processes
		Leverage public/private partnerships	Utility programs
			Economic development organizations (including Community Development Financial Institutions (CDFIs)
			Grants
	Ongoing support for high-cost activities - example: EE/ RE rebate programs	On-going cash flow	System benefit charges
			Program fees
			Enterprise fees, special assessment districts; gross receipts tax
			Proceeds from settlements, lawsuits, and purchase agreements
	One-time funding to establish discrete programs: Property Assessed Clean Energy (PACE) programs, RLFs, demonstration projects, on-bill financing program (for municipal utility)	Lump sum project support or seed funding	Capital funding
			Grants
			Bonds - including QECBs
			Program-related investments

Having a good relationship with your state energy office and congressional representation can be very effective. State and congressional staff can keep the local government informed about funding opportunities.

Identify Potential Financing and Funding Sources

Once an initial set of priority actions have been proposed in Step 6, the Leadership Team, working with financial officials and stakeholders, can begin to identify potential financing mechanisms.

- Start by matching proposed actions to the appropriate mechanisms identified in the table above and discussed in more detail in the **Step 7 – Appendix**. Remember to take into account who will be performing the actions and their expected durations.
- Then develop a more-detailed inventory of financing options that match the proposed CESP actions. The **Inventory of Potential Financing Activities Template** provided at the end of this chapter sets out a list of useful information to collect. Be sure to inventory existing types of financial support, as well as new options. Using the knowledge gained from this preliminary groundwork, focus on those mechanisms that have the best potential. For example, if research has indicated that debt financing is not a likely possibility for your community, do not spend time gathering more details for bonding options. Alternatively, if you

know that ESPCs have been used by your community successfully in the past, be sure to include them in your inventory for further research.

Design a Suite of Financial Mechanisms for Proposed CESP Activities

Once a list of potential financing sources is in hand, the Leadership Team should review the inventory with the Champion and solicit feedback. Then the Team, again working with financial officials and stakeholders, can start to design a suite of mechanisms to support the proposed CESP from the options presented in the inventory. Developing a **portfolio of different types of financing** support is key, because a single financing mechanism is unlikely to be the full answer for all actions, and a full portfolio of support also mitigates risks.

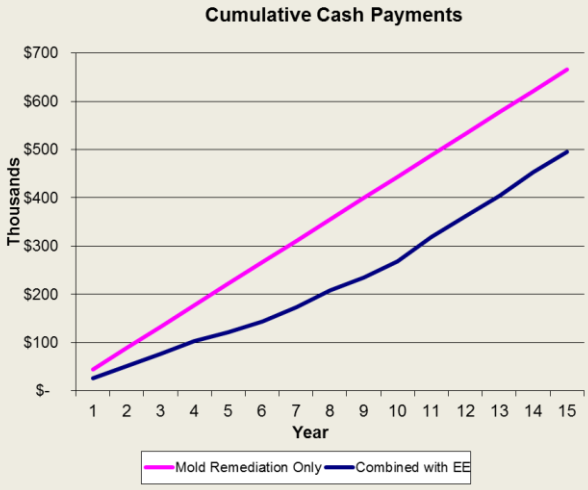
- Different projects will require different timeframes, risk models, and financing mechanisms. Match the financing type to these needs. For example, relying on a string of short-term financing sources for a long-term project or program is subject to the danger of program uncertainty if source of funding does not continue.
- Layering different financing sources into the portfolio provides redundancy and can mitigate impacts of economic slowdowns, lost grants, and other risks. For example, a combination of bonding and performance contracts can provide a relatively stable and low-cost platform for financing energy efficiency, while also providing larger savings in the event fuel prices rise.

Bundling actions into portfolios for funding – that is, collecting several actions under a single financing approach – can have many advantages as well.

- The ability to aggregate the investment return from projects that produce larger returns with more marginal projects results in total portfolios that pass cost-effectiveness tests. This allows a **broader range of projects** to be funded in the plan. This can be true not only with energy measures within one project but also across multiple projects. 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 has helped many governments complete projects with longer payback periods, such as renewable energy projects.
- Aggregating projects from many departments or public agencies (schools, wastewater treatment plants, etc.) under a single financing structure, such as a bond initiative, can provide overall savings through **shared transaction costs and better credit ratings**.
- **Partnering with other local governments** can achieve similar advantages, which is especially valuable for small governments.
- In addition to the benefits of bundling energy projects, consider **combining energy upgrades with non-energy upgrades,** particularly those that are already planned and have buy-in. This can achieve savings again through reduced transaction costs, as well as help the energy effort **gain momentum and internal/public support**. To make the case for adding an energy project, articulate how adding an efficiency project can help reduce total net costs through cost savings. See **CESP in Action** below.

CESP IN ACTION:
COMBINING NON-ENERGY AND ENERGY-MEASURES FOR EFFECTIVE FINANCING

An elementary school planned to issue a bond to raise funds for a mold remediation project. The city's energy planners suggested they analyze the effects of adding energy efficient lighting that had not been previously considered to the mold remediation project. While the total amount borrowed is higher, combining the $$ saved on electric bills with the bond payments results in lower total cash outlay than the original project would have realized. In addition, bond issuance and transaction costs were lower than if a bond was issued separately for each project.



Mold Remediation Project	
Total amount borrowed (Rate and term – 4%; 15 yrs.)	$500,000
Total cost	**$665,719**
Energy Efficiency Project - Lighting	
Total amount borrowed (Rate and term – 4%; 15 yrs.)	$454,510
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 project costs net of energy-associated savings	**$494,509**

As the Leadership Team is reviewing options for portfolios of mechanisms and actions, there are some additional **funding principles** to remember.

- **Timing of costs and savings matter** – as touched on in Step 6, stage actions rather than thinking about them on an individual basis, so that cost savings can be "recycled" to support further CESP activities. A popular approach, particularly in municipal operations, is to look for fast, easy ways to save energy, allocate a portion of the savings back to the agency or department that creates the savings as incentive to keep doing more, and then use the rest of the savings to reduce energy bill paid by taxpayers, and publicize it to create support for ongoing CESP activities.

  However, it is critical to also remember that too much "cream-skimming" up-front – doing the fast, easy projects only – will make it difficult to take on projects with longer payback periods down the road. So strike a balance – consider doing just one or two limited low-hanging fruit projects to "prove the concept," and then move on to comprehensive energy improvements with a balance of short- and long-term paybacks.
- **Leverage/encourage private investment** where appropriate, especially for community-wide programs. For example, structure loan programs to include credit enhancement (e.g., loan loss reserves, debt service reserve) and/or a form of security (e.g., a lien on property) to attract participation from local financial institutions.

Once the suite of mechanisms has been identified, outline at a high level the necessary actions and timeline to put the financing for the CESP in place, working closely with financial officials. The Leadership Team should include this strategy in the implementation blueprint described in Step 8. Information for each financial mechanism can be

included with the other information for each specific action/strategy and/or provided as a complementary but separate discussion, summarizing the portfolio of mechanisms and next steps. The Champion will provide final sign-off on the finance strategy as a part of the implementation blueprint. Remember, this is sign-off on the strategy for the purposes of inclusion in the plan only – official approval of a financial approach will likely need to come from a full elected board and renewed or revisited on an annual basis with each budget cycle.

Tools

Tool 7.1: Inventory of Potential Financing Activities Template (.docx)

Resources Recommended for More In-depth Guidance

General

- DOE Energy Efficiency and Renewable Energy Finance Guide and webpage www1.eere.energy.gov/wip/solutioncenter/financialproducts/financingoverview.html
- EPA Establishing Funding Sources and Financing Vehicles www.epa.gov/statelocalclimate/local/activities/funding-options.html
- EPA ENERGY STAR Financial Evaluation Calculators and Resources www.energystar.gov/index.cfm?c=assess_value.financial_tools

Funding & Financing Projects and Programs for Government Facilities

- DOE Qualified Energy Conservation Bond (QECB) webpage www1.eere.energy.gov/wip/solutioncenter/financialproducts/qecb.html
- DOE Best Practices for Establishing Revolving Municipal Funds for Energy Efficiency Projects (Webinar) www1.eere.energy.gov/wip/solutioncenter/pdfs/bestpracticesforestablishingmunicipalfundsforenergyefficiencyprojects.pdf
- DOE Energy Savings Performance Contracting Resource webpage www1.eere.energy.gov/wip/solutioncenter/financialproducts/espc.html
- DOE's Power Purchase Agreement webpage www1.eere.energy.gov/wip/solutioncenter/financialproducts/ppa.html

Funding & Financing Community Projects and Programs

- DOE Clean Energy Finance Guide for Residential & Commercial Building Improvements www4.eere.energy.gov/wip/solutioncenter/finance_guide/
- DOE On-Bill Repayment Programs webpage www1.eere.energy.gov/wip/solutioncenter/financialproducts/onbillrepayment.html
- DOE State and Revolving Loan Funds webpage www1.eere.energy.gov/wip/solutioncenter/financialproducts/revolvingloanfunds.html
- DOE Property Assessed Clean Energy (PACE) Programs webpage www1.eere.energy.gov/wip/solutioncenter/financialproducts/pace.html
- Engaging Financial Institution Partners (Webinar) www1.eere.energy.gov/wip/solutioncenter/webcasts/default.html
- Partnering with Utilities: Part 1: Successful Partnerships and Lessons from the Field (Webinar) www1.eere.energy.gov/wip/solutioncenter/pdfs/partneringwithutilitiespart1successfulpartnershipsandlessonsfromthefield.pdf; Part 2: Advanced Topics for Local Governments in Creating Successful Partnerships with Utilities to Deliver Energy Efficiency Programs (Webinar) www1.eere.energy.gov/wip/solutioncenter/pdfs/partneringwithutilitiespart2advancedtopicsforlocalgovernments.pdf
- Better Buildings Challenge Financial Allies www4.eere.energy.gov/challenge/allies/financial-allies

Step 7 – Appendix

Financing Mechanisms to Consider

The following short descriptions are provided to give an introductory understanding of these financing mechanisms and provide an indication of when they could be useful. The objective of this list is to briefly present the types of options currently available rather than to fully describe all the technical details that would be necessary to master in order to employ each option. More-detailed information on these opportunities is available at the sites listed in the Resources section.

Financing Options for Local Government CESPs – Discrete Government Projects

Most CESPs will be looking for ways to pay for projects to upgrade government buildings or facilities. Examples include one-time funding needed for new construction, equipment upgrades, fleet purchases, or other large projects. Finding reliable support will be most effective if these projects are identified as part of a Capital Improvement Plan, a short-range plan (typically about 4 years) that:

- Identifies proposed capital projects and equipment purchases,
- Provides a planning schedule, and
- Identifies options for financing the plan.

Add energy savings requirements to all capital improvement projects, or prioritize those projects that provide savings.

Potential financing options for these **discrete projects** include:

- **Capital reserve funds** – an account on a municipality's balance sheet reserved for long-term capital investment projects or any other large and anticipated expenses that will be incurred in the future.
- **Fund balance** – essentially the government's savings accounts, fund balance is built up over time when government income exceeds government expenditures. These funds may be unrestricted in their availability or may have restrictions. Governments are generally expected to maintain a certain level of fund balance as a percentage of their incomes.
  - More information on fund balance is available from the Government Finance Officers Association: www.gfoa.org/downloads/NewFundBal_GFR_apr_09.pdf
- **Cost savings from previous EE or RE projects** in Internal Revolving Energy Funds
  - The revolving fund is recapitalized using either the actual savings of the projects, the estimated savings of the projects, or a balance transfer from the general fund of unspent energy dollars
  - Having an internal revolving energy fund allows the government to fund a series of discrete EE or RE projects over time
- .**Short-term financing or long-term borrowing**, including borrowing from:
  - **Main-stream financial institutions** – short-term bridge financing is the most common use from this source of financing.
    - Look for banks that describe offerings as "green" or call out energy efficiency or renewables in their marketing materials. Example: Wells Fargo Sustainable Energy Financing Division.
    - Working with the DOE Better Buildings Challenge Financial Allies – financial institutions that have pledged to develop innovative and cost-effective energy efficiency products and services – see the list at www4.eere.energy.gov/challenge/allies/financial-allies

- **Financing arranged by ESCOs** for Energy Savings Performance Contracts (ESPCs)
    - In most cases, when a government enters into an Energy Savings Performance Contract, it will secure its on financing. In some cases, though, the ESCO may help arrange financing or provide financing itself for the projects
- **Bonding,** including:
    - Tax-exempt government bonding, including general obligation bonds or revenue bonds.
    - Special debt obligations for energy efficiency and renewable energy projects, including **Qualified Energy Conservation Bonds (QECBs)**, a type of tax-credit bond where 70% of the interest earned by the investor is tax-free. This results in much lower interest rates for the bond issuer.
        - Qualified uses include: energy upgrades to public buildings, mass transit projects, and 'green community programs,' including street lighting upgrades and grant/loan programs for public/private retrofits.
        - Case Studies:
            - Using QECBs for Public Building Upgrades: Reducing Energy Bills in the City of Philadelphia: http://financing.lbl.gov/reports/public-building-qecb.pdf
            - Using Qualified Energy Conservation Bonds (QECBs) to Fund a Residential Energy Efficiency Loan Program: Case Study on Saint Louis County, MO: http://eetd.lbl.gov/ea/emp/reports/ee-policybrief_062011.pdf
            - Using QECBs for Street Lighting Upgrades: Lighting the Way to Lower Energy Bills in San Diego: http://financing.lbl.gov/reports/street-lighting-qecb.pdf
        - See additional examples in Energy Program Consortium's Qualified Energy Conservation Bonds memo: www.energyprograms.org/wp-content/uploads/2012/09/QECB_Memo_9-5.pdf

- **Public/private partnerships and support** – leveraging private investment to stretch government dollars. Such support includes:
    - **In-kind support from partners** – a partner that does not have financial resources but can provide necessary services can help by freeing up government funds, which otherwise would have been spent on administrative requirements, for other purposes such as project financing. Examples:
        - Engineering/ technical assistance
        - Financing analysis
        - Legal support
        - Media support/ communication services
        - Training
    - Support for energy efficiency or renewable energy projects in the form of **rebates, incentives, or loans from utilities and state and federal programs**.
    - **Grants** – while not sustainable funding, these are great resources, if available.
        - Future support from federal grants to help fund energy efficiency and renewable energy projects at recent levels is uncertain, but investigation is worthwhile – check with DOE, EPA, U.S. Department of Housing and Urban Development, U.S. Economic Development Administration, U.S. Department of Agriculture, U.S. Department of Transportation, U.S. Small Business Administration, U.S. Department of Commerce, and others.

- Funds from state grants, statewide systems benefit charges, or proceeds from regional markets such as the Regional Greenhouse Gas Initiative (RGGI) are sometimes made available to local governments for use in public operations or community projects – check with the State Energy Office.
- Some private foundations grants provide support for energy efficiency and renewable energy projects and programs – these programs are usually looking for something innovative and/or replicable.
- Benefit: can be used as project capital or seed money for other programs.
- Challenge: hard to find; very competitive to win; often come with restrictions on how they can be spent.

The process of preparing a grant proposal can be valuable, 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.).

- **Third-party ownership models** – all allow the local government to implement energy projects without any upfront capital expenditure. A third-party provides the capital, owns the equipment, and passes on advantages from tax credit and depreciation benefits (not otherwise available directly to the government entity) in the form of reduced lease or contracted energy payments. Common forms include:
  - **Leasing** – leasing not only provides the advantages listed above – no up-front costs; favorable payment stream from pass-through of tax advantages – but also gives an added advantage over purchasing equipment in that lease payments become annual expenses rather than increases in debt load.
    - Raleigh, NC: solar installations on the city's water treatment clearwells www.raleighnc.gov/environment/content/AdminServSustain/Articles/WTPsolararray.html
  - **Power Purchase Agreements (PPAs)** – a contract in which one party sells energy to another at an agreed price for a fixed term. Typically much easier to use with renewable energy systems, where output can be metered, rather than energy efficiency, where the benefit is the energy not used.
    - Knoxville, TN: solar PV on convention center, PPA with TVA www1.eere.energy.gov/wip/solutioncenter/financialproducts/ppa.html
  - **Performance contracting** – an Energy Service Company (ESCO) acts as a project developer and arranges financing for projects designed to improve the energy efficiency and maintenance costs for buildings. The ESCO assesses a facility's energy efficiency opportunity, manages the improvement implementation, and guarantees the energy savings will be greater than the cost of the project. ESCOs assume the technical and performance risks associated with projects – including providing a financial guarantee to the lender – and are repaid through the dollar savings generated. Under performance contracting, projects are designed and installed by a single ESCO that then guarantees a certain energy cost savings over time.
    - Can be particularly effective for large projects and for large-scale collections of efficiency and/or renewable energy projects conducted at the same time.
    - Can be limiting, as the ESCO will provide the financial benefit of a performance contract only for the brand and type of equipment they support.
  - **Energy Service Agreements (ESAs)** – much like performance contracting through an ESCO, an ESA separates the financial contract, by which savings associated with energy production or reduced energy consumption is used make periodic service payments to a financial institution, from the installment of the equipment, which is done through a separate equipment contract.

Financing Options for Local Government CESPs – Support for Ongoing Government Activities

Local government plans will also include ongoing activities within their operations designed to reduce energy usage. Examples of such activities include enhanced operation and maintenance processes, equipment commissioning, and new or expanded staffing to oversee these activities.

Potential financing options for these **ongoing activities** include:

- **Appropriated funds** through current budget and procurement processes.
- **New cash flow** for energy activities, which can come from:
  - Reduced expenses from **cost savings** from energy efficiency or renewable energy projects – lowering bills is equivalent to increasing income. To enhance the potential from using this approach:
    - Track savings from reductions in energy us and allocate them to future elements of the CESP.
    - Allow the department that achieved these savings to retain them in their department budget.
  - **Taxes, enterprise fees, and special assessment districts.**
    - Can come from taxes or fees on non-energy-related services, or from organizing energy services as enterprises for which fees are collected.
    - Could be collected from local utility customers on behalf of the local government.
    - For example, the City of Boulder instituted a Climate Action Plan tax. Boulder does not have a municipal utility but has arranged for Xcel Energy to collect a city tax from utility customers based on their usage, as a tax on carbon emissions. Proceeds fund city programs, including promoting energy audits for homes and businesses and installation of basic energy reduction measures, rebates and financing assistance for energy efficiency improvements and solar installations, and Eco Pass (bus pass) subsidies. www.bouldercolorado.gov/index.php?option%3Dcom_content%26id%3D15356%26Itemid%3D2150
  - **Income from renewable energy projects** – including energy sales and revenue from Renewable Energy Credits or Green Tags.

Financing Options for Local Government CESPs – Behavior Change Activities

Some actions that require behavioral changes come from policy implementation – these require political will more than new dollars.

Financing Options for Community-wide CESPs – Financing Low-Cost Ongoing Support for Motivating Community-wide Energy Activities

Many CESPs designed to address energy use in the broader community will often include relatively low-cost government activities designed to support community involvement, such as facilitating Lead by Example challenges and awards; conducting education and outreach efforts; convening peer groups; and leveraging third-party support.

Financing options for these types of activities include:

- Providing support directly through **appropriated funds** from the current budget and procurement processes.
- Undertaking work to leverage **public/private partnerships** and support, such as:

- Establishing **partnerships with utility or third-party administrators** of energy efficiency and renewable energy programs to showcase and support their activities.
- Doing the same with any other energy efficiency support available locally – see DSIRE (www.dsireusa.org) for a comprehensive listing of incentives and policies.
- Taking advantage of **in-kind support** from community partners who can provide resources to administer, staff, and develop information for these kinds of activities.
- Partnering with or supporting **economic development organizations** that fund energy activities that result in commercial investment and job development.
    - Includes Community Development Financial Institutions (CDFIs) - specialized financial institutions, certified by the Department of Treasury that must have a primary mission of promoting economic growth and stability in low- to moderate-income communities. www.bos.frb.org/commdev/necd/2006/q2/overview.pdf

Financing Options for Community-wide CESPs – Financing High-Cost Ongoing Support for Leveraging and Motivating Community-wide Energy Activities

Some local governments will decide to make a more substantial investment in CESP activities to address energy use in the broader community, such as funding efficiency or renewable energy rebate programs. These actions require a stable, ongoing source of funding.

Financing options that produce a stable, ongoing stream of funding include:

- **System benefit charges** (or public benefits charge) – a small charge paid by every energy user as part of their utility bill in certain states.
    - Can be earmarked for a range of energy efficiency and renewable energy projects and programs – could fund transportation efficiency as well.
    - Usually collected by the utility – so available to jurisdictions with a municipal or cooperative utility if governing laws allow.
    - Local governments that receive power from an investor-owned utility that has a public benefits charge can work with the utility to tap into those funds (depending on how they are handled in a particular state) for local capital projects.
    - Some areas have regional or statewide programs funded through public benefits charges that pass on funds to local communities to support efficiency or renewable energy projects.
        - Example: Massachusetts Clean Energy Center: funds for public and community renewables, energy master planning, education/outreach, solar grants. www.masscec.com/
- **Program fees** – charged to participants in energy programs sponsored by the local government.
    - Examples: application fees for loan/rebate programs, contractor fees (fixed and/or per-project), homeowner fees, fees for "energy concierge" services, transportation project-related fees.
    - Program fees are usually not sufficient to cover the costs of full projects or programs but can add enough additional income to cover the costs of administering activities.
- **Enterprise fees, special assessment districts, gross receipts taxes** – particularly effective if programs or projects can be supported by the people they directly benefit.
    - Examples: Wastewater efficiency projects supported by water district fees; transportation efficiency projects supported by downtown business association.
- **Funds from settlements, lawsuits, and purchase agreements**. Many energy efficiency or renewable energy programs have found ongoing funding from proceeds from power plant lawsuit settlements or other agreements such as utility purchases or mergers. The state or regulatory body in those cases has authorized use of such funds to the local governments affected.

Financing Options for Community-wide CESP – Financing Discrete Projects to Leverage and Motivate Community-wide Energy Activities

An additional approach taken by some local governments to address energy use in the broader community includes actions that require a single infusion of funds or seed money, such as building individual large community or demonstration energy projects; or establishing revolving loan programs, loan-loss reserve funds, PACE programs, or on-bill financing programs to support consumer projects.

Financing options for these actions include:

- **Capital financing** for demonstration projects – supported by the same suite of sources as for discrete government projects (above).
- Establishment and recapitalization of **consumer loan and financing programs** – In the case of revolving loan funds, seed money is invested into the fund. Then loans are made to consumers by the government, a third party administrator, or a financial institution. The fund is recapitalized by loan principal and interest repayments as well as any interest earned on the fund balance. In the case of loan loss reserve funds, seed money is used to secure private lending, providing some payback to the financial institutions in case of default. Because the seed funding itself is not being loaned out, the fund is not recapitalized, though the loan loss reserve fund has the potential to earn interest income.
  - These types of support provide ongoing value, in that money is essentially reused over time.
  - Potential seed funding sources may include:
    - When available, grants are an effective way to initiate loan and financing programs – capital is returned as loans are paid back.
    - **Program-related investments (PRIs)** – investments made by foundations to support charitable activities that involve the potential return of capital within an established time frame. Might be an option when the program results match one or more of the foundation's exempt purposes.
    - Some innovative programs have used debt to seed loan programs for residents and businesses, to seed assessment programs for residents and businesses, or for internal revolving energy programs. Examples:
      - QECB-funded loan program: Saint Louis County, MO http://eetd.lbl.gov/ea/emp/reports/ee-policybrief_062011.pdf
      - QECB-funded PACE program: Boulder County, CO www.bouldercounty.org/sustainability/programs/pages/cslp.aspx