ENERGY SAVINGS PERFORMANCE CONTRACTING (ESPC)
How to Finance an ESPC

- Looking for ways to maximize and leverage funding?
- Interested in learning more about how to finance your energy conservation measures without any upfront capital costs?

If so, consider Energy Savings Performance Contracting.

ESPC is a financial mechanism used to **pay for today's facility upgrades with tomorrow's energy savings** – without tapping your organization's capital budget.

An ESPC constitutes a partnership between a facility owner and an energy service company (ESCO), and is considered a time and cost-effective method for completing comprehensive energy upgrades.

Financing Steps

1. **Leverage Grant Funding**
   - By paying for specific energy conservation measures that you install early in the installation phase,
   - As the first few progress payments, and finance the rest secured by future energy savings, or
   - As the pre-performance period payment for energy retrofits slated to be installed, but instead installed as part of the performance contract – in this way, your funds leverage more measures than originally planned by providing for a better return on the entire ESPC.
2. **Investigate State Financing Contracts**
   If your State Treasurer has an ESPC financing umbrella contract, take advantage of it if allowed.
3. **Decide On the Type of Financing**
   Most ESPCs are financed using Tax-Exempt Lease Purchase Agreements (TELP), but you also can use a capital lease or General Obligation (GO) Bonds. TELPs are available in most states, have statutory limitations, and are often treated as off-balance sheet transactions. The off-balance sheet treatment depends on the presence of "non-appropriation" or "abatement" language in the lease. Such language provides that the lessee (through its Governing Board or similar governing entity), may be subject to periodic appropriation of sufficient funds to meet its current lease payment obligations in line with its overall budget. Because the obligations are limited to the current operating budget, the lease may be classified as a series of renewable, short-term lease payments rather than a long term debt obligation.
4. **Develop a Financing Request for Proposal (RFP)**
   Consider using a model/sample RFP available on the Energy Services Coalition website (http://www.energyservicescoalition.org/). Issue the RFP to selected financing institutions. Review responses to the RFP.
5. **Select Financing**
   Determine the loan amount after your project cost is established, borrow the funds up-front, and put in escrow. Escrow earnings reduce the amount needed to borrow. Make progress payments from escrow account. Some ESCOs also come with financing capability.

CONTACT THE TECHNICAL ASSISTANCE TEAM

Contact the ESPC Technical Assistance team directly by emailing solutioncenter@ee.doe.gov, or visit the Technical Assistance Center at https://tac.eecleanenergy.org/.

VISIT THE SOLUTION CENTER

Access project resources on the web at www1.eere.energy.gov/wip/solutioncenter.