



**TRANE<sup>®</sup>**

# Energy Savings Performance Contracting

APEC Southern Illinois Chapter  
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# Agenda



- Introduction to Energy Savings Performance Contracting (ESPC)
- Energy Conservation Measures
- Legislation in Illinois
- Procurement Methods
- Project Development Process
- ESPC Financing
- 3<sup>rd</sup> Party Financing

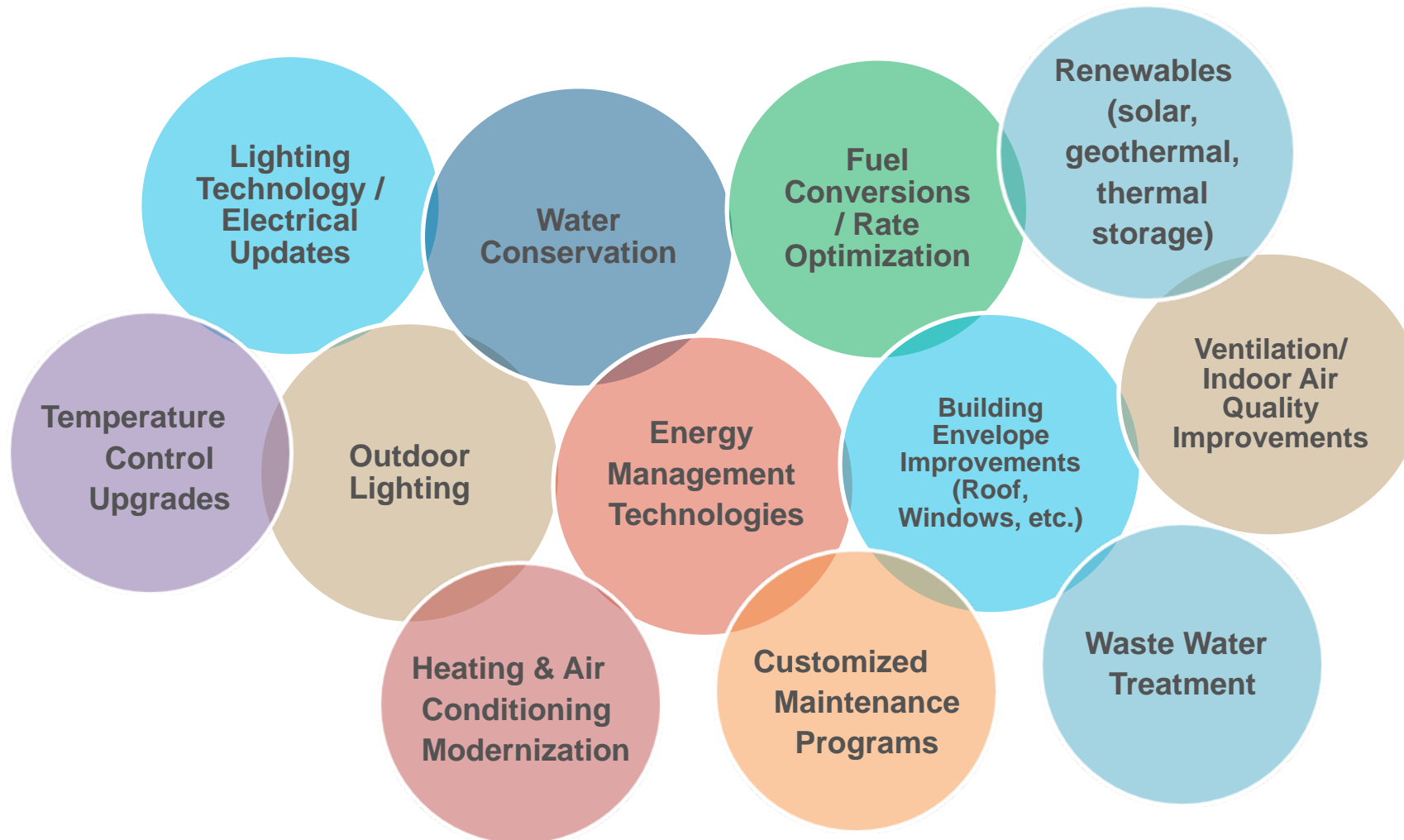
# Introduction to ESPC



- Budget-neutral approach to make building improvements that reduce energy and water use and increase operational efficiency.
- Facility owner can use an ESPC to pay for today's facility upgrades with tomorrow's energy savings—without tapping into capital budgets
- **Ideal ESPC Customers:** city, county, and state buildings; schools; hospitals; universities & community colleges; large commercial & industrial



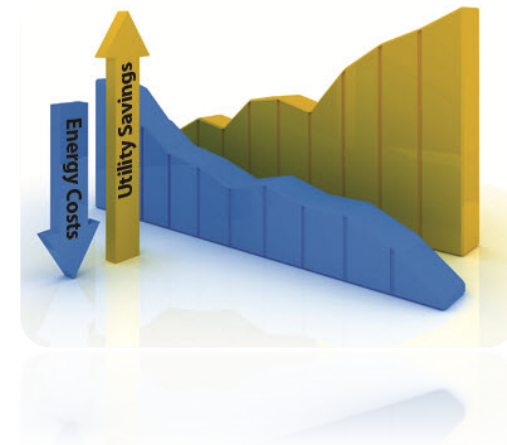
# Energy Conservation Measures



# Legislation in Illinois



- *Alternative method to pay for facility upgrades over time by leveraging future guaranteed energy and operational savings to cash flow the debt service...*
- Finance Project Costs up to a 20-year term –
  - *Accelerate Capital Improvement Planning*
  - *No Up-front Capital*
  - *No Referendum Requirement*
  - *Minimize Tax Levy Impact*
- NO RISK -- Qualified Provider Writes Shortfall Check if Actual Savings less than Annual Program Cost
- 50 ILCS 515 – Local Government Energy Conservation Act
- 110 ILCS 805 – Public Community College Act
- 105 ILCS 5/19b – Illinois School Code



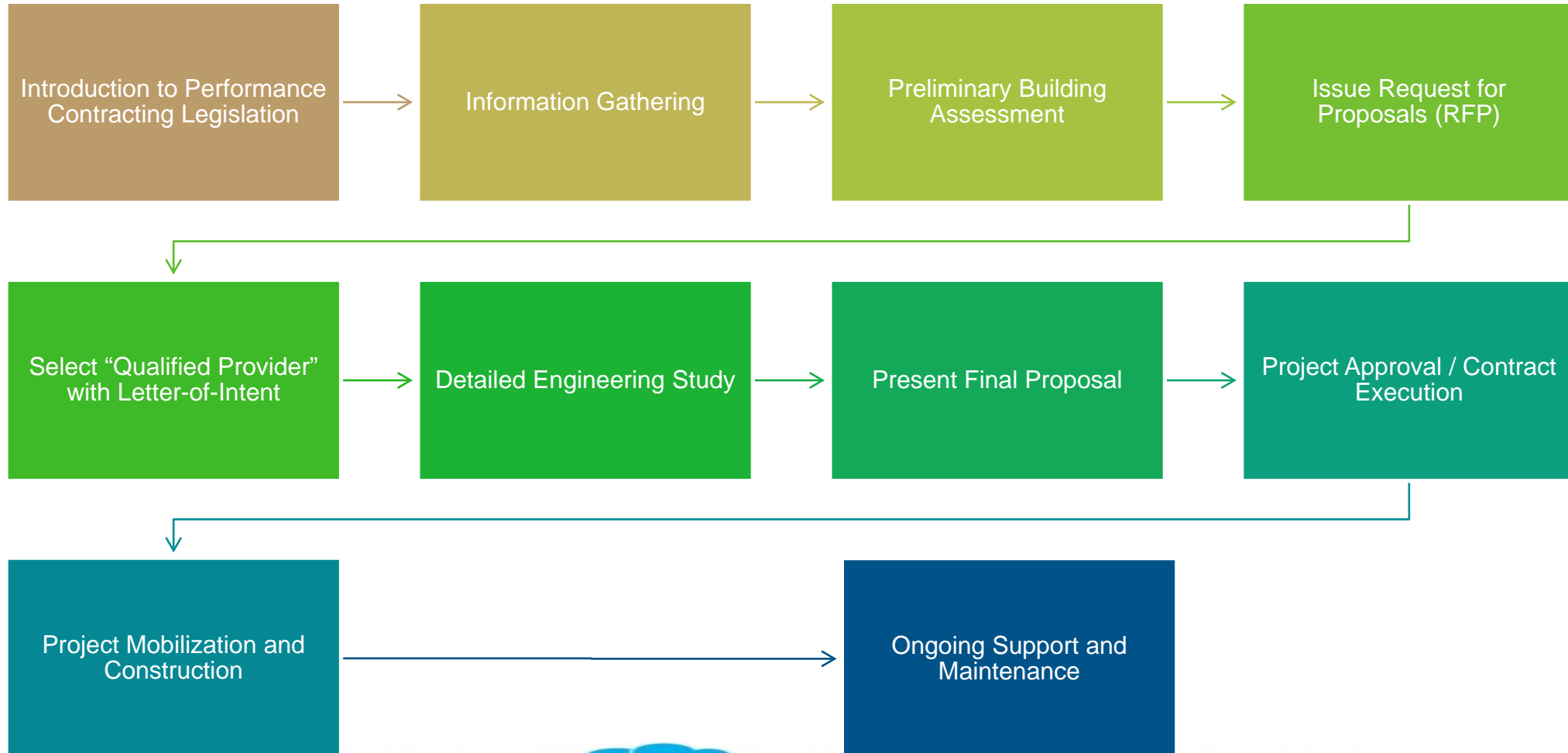
# Procurement Methods



- Selection based on “*Best Value*” not “*Lowest Bid*”
- **Public Sector Clients**
  - Request for Proposal (RFP) / Request for Qualifications (RFQ)
  - Cooperative Purchasing Organization(US Communities / OMNIA Partners)
- **Private Companies**



# Project Development Process



# ESPC Financing Discussion



## ☐ Guaranteed Energy Savings (Performance Contracting) Legislation

- Leverage future savings for high performance upgrades
- Tax-exempt lease-purchase or lease certificates of participation
- Revenue neutral cash flow financing structure

## ☐ Energy Efficiency Incentives

- Available utility incentive/rebate programs
- Potential energy grants (Public and/or Private)
- Illinois Clean Energy Foundation Grants (ICEF)
- Solar Renewable Energy Credits

## ☐ IL School Districts: Health/Life Safety Levy/Bonds

## ☐ IL School Districts: 1% Facility Sales Tax

## ☐ Local Government: EPA Revolving Loan / USDA Subsidized Loan

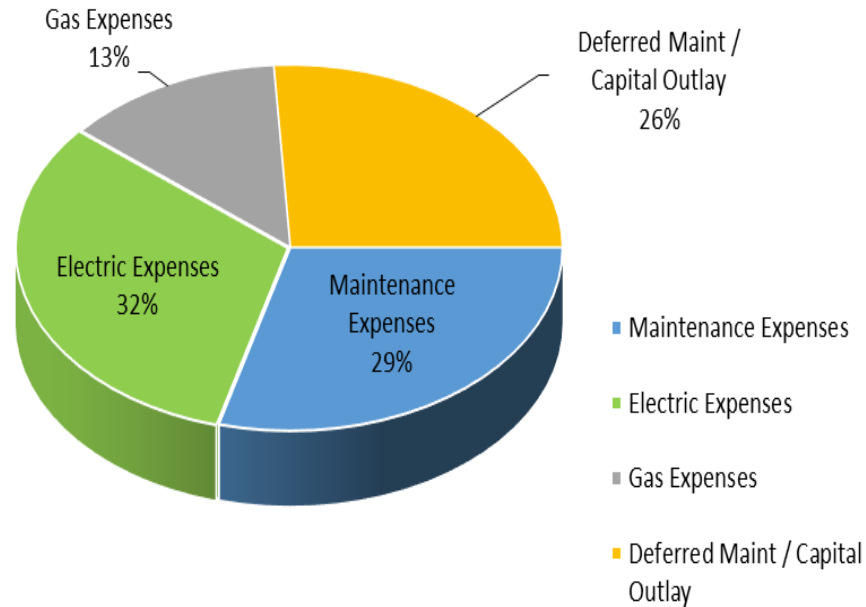




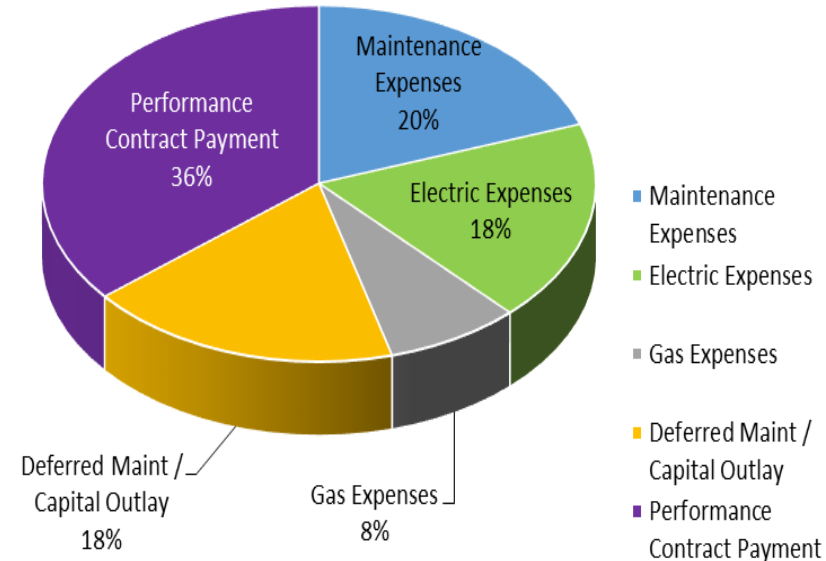
# Budget – Neutral Cash Flow Financing Model



## Before Performance Contract



## After Performance Contract



**Budget Breakdown – Savings re-allocated to cash flow the project without a tax/revenue increase**

# 3rd Party Financing



If capital is not available to pay for energy efficiency upgrades or a performance agreement, consider using 3<sup>rd</sup> party financing to pay or partially pay for the improvements:

- Lease-Purchase
  - Municipal Tax-Exempt
  - Commercial
- Debt Certificates or Bonds (public sector)
- Off-Balance Sheet Operating Leases

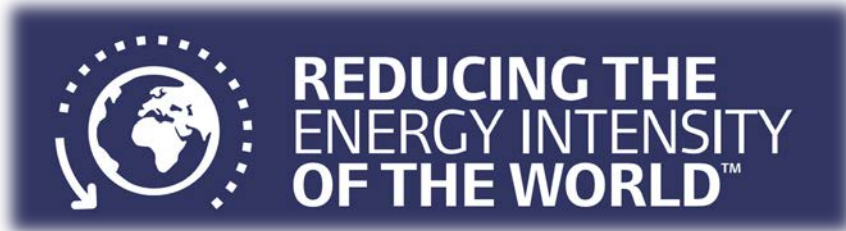
## **Step 1 – Determine Financing Structure & Terms using Preliminary Cash Flows**

- Length of Financing (5, 7 or 10 years)
- Pre-Payment Penalties (if any)
- Payment Mode (Monthly, Quarterly, Semi or Annual)
- Construction Period Financing (Progress payments or draws)

## **Step 2 – Funding Sources**

- Vendor, Bank, Leasing Companies or Financing Institutions
- Subject to Credit Review and Approval
  - 3-yrs. Audited Financial Statements (3-years)
  - Interim Budget Statements
  - Interest rate based on Credit Rating

# THANK YOU! Questions?



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