

External Financing Guide



EXTERNAL FINANCING FOR RETAIL ENERGY PROJECTS

Updated August 2017

Retail is a sector of high competition and low margins, making energy projects a critical source of cost savings. Few investments are as overwhelmingly beneficial as energy projects: they reduce operating expenses, improve budget forecasting, build confidence among socially responsible investors, and strengthen brands. However, internal capital is often hard to acquire, even at cash-rich companies.

Fortunately, energy projects are so compelling that retailers have many opportunities to fund them using external sources of capital. The most promising external financing options for retail energy projects are described in this guide.

For more information about financing energy projects with internal capital, please see the companion [Internal Financing Guide](#).

Prepared By:

ABOUT THE GUIDE

This guide is intended to help energy managers and finance professionals at retail companies understand how to use external financing for energy projects. An external financing mechanism exists for nearly any company's project and risk preferences. There is external financing for big and small projects, individual or portfolio-wide. There are financing mechanisms that are very safe but limit reward, and there are some that require more risk but offer greater potential value.

Facilities, operations, or sustainability managers that have not utilized external financing in the past should explore the viability of the mechanisms described in this guide to fund future energy projects.

How to get started

1. RILA's [Energy Efficiency Finance Calculator](#) is the quickest way to understand available external financing options. Input basic project and company information and preferences to see what mechanisms you might want to consider.
2. In order to pinpoint the best financing option, consider your company's responses to the following questions. Enlist your Finance Team as necessary to confirm any assumptions.
 - What are the primary reasons other projects might be prioritized over an energy project with more compelling financial returns? How does the company evaluate proposals against one another?
 - Does the current project proposal process provide other teams with all of the information they want?
 - Is there a preference between receiving financing on a project-by-project basis, or to secure a larger amount to do a portfolio of projects?
 - How valuable is low cost of capital to your finance team?
 - Can your company take more debt on its balance sheet?
 - What are the key times of year to be aware of in the company's financial calendar?
 - How involved would you like a third-party energy management company to be? Would you like them to assume risk of project underperformance or manage project installation work, payments, permits, etc.?
 - How would your company value positive press as a result of using innovative financing?
3. Review the [primers](#) in this document and the [table](#) in the addendum to narrow down your financing options before engaging your finance department about potential projects.

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MAJOR INITIATIVES OR CONSTRUCTION

Some financing mechanisms are only suitable for large projects or portfolio-wide initiatives. While many of the financing options presented in this guide can be used to support comprehensive projects at multiple sites or a single improvement across an entire portfolio, green bonds stand alone as the financing mechanism for raising large amounts of capital.

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GREEN BONDS

Prepared By:



Bonds are the largest source of capital in the global market. Many of the financiers and investors that buy bonds are interested in the environmental impact of the projects they fund. Green bonds provide a stable channel for investors to provide capital for projects that promote sustainability or mitigate climate change.

Bond labeling has been a popular tool since bonds were created. Labeled bonds have been used to fund the railroad, aircraft, highway, and war industries. Retailers are starting to take advantage of the benefits green bonds have to offer.

Why should you use it?

- Your company wants to pursue high capital, portfolio-wide installations or retrofits through a single initiative or funding mechanism.
- Your company wants autonomy over spending and doesn't need third party project management.
- Your company wants to make a public splash and be viewed as an environmental leader.

Who has used it in the past?

According to the [Climate Bonds Initiative](#), the global aggregate of green bond issuances increased from approximately \$41 billion in 2015 to \$81 billion in 2016. Corporations issued \$25.8 billion worth of green bonds in 2016, making up 31% of the total green bond market that year. In 2017, the green bond market is expected to exceed \$100 billion, with some projections as high as \$150 billion.

In February 2016, [Apple issued \\$1.5 billion in green bonds](#). Apple recently issued its first [Annual Green Bond Impact Report](#), which includes information about 16 projects worth \$441.6 million initiated in fiscal year 2016. In June 2017, [Apple issued a second green bond worth \\$1 billion](#). The proceeds will be used to bolster spending in many of the areas the company focused on in its first green bond issuance.

In May 2016, [Starbucks announced its first sustainability bond issuance](#). The company is using the net proceeds from the offering of \$500 million to enhance its sustainability programs around coffee supply chain management.

[Regency Centers](#), [Vornado Realty](#), [Unilever](#), [Bank of America](#), and [Solar City](#) are other recent issuers.

What are the advantages?

- **Quantity:** A single green bond offering could fund almost any set of retrofits across an entire portfolio, or even fund new store construction.
- **Green bonds attract new investors:** Attracting a new pool of investors is cited as a top benefit by many companies that have issued green bonds.
- **Green bond issuances are consistently oversubscribed:** Most green bond issuances are oversubscribed including the offerings from Starbucks and Regency.
- **Ease of qualifying:** The International Capital Market Association publishes official [Green Bonds Principles](#), and it is likely that any project with a notable sustainability component would qualify.
- **Positive press and improved company image:** Early adopters of green bonds have garnered substantial media interest.



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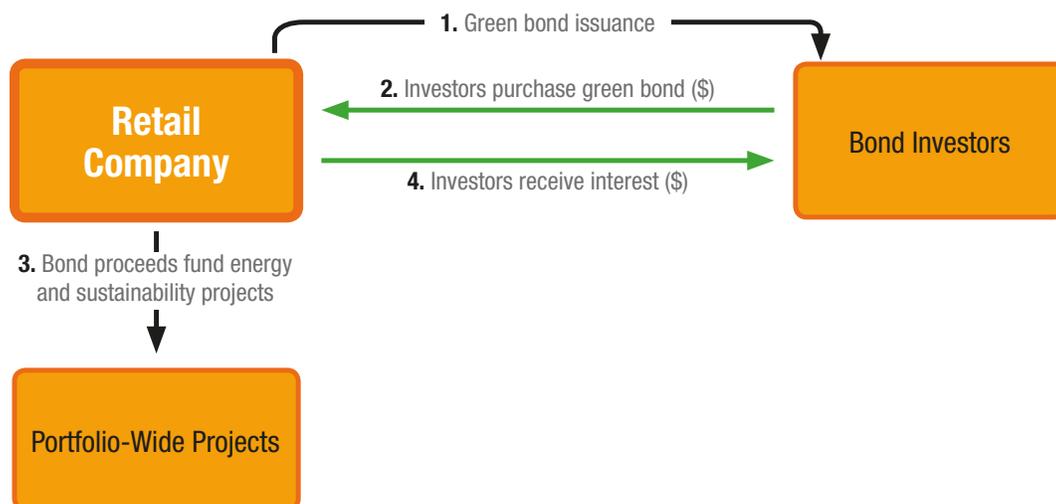
What are the downsides?

- Green bond issuances are typically large (\$5 million or greater).
- A high level of certainty in energy reductions is required to ensure bond obligations can be met via green projects.
- There may be extra costs to issue a green bond and as a result, traditional investors may not want to pay a premium for green bonds.

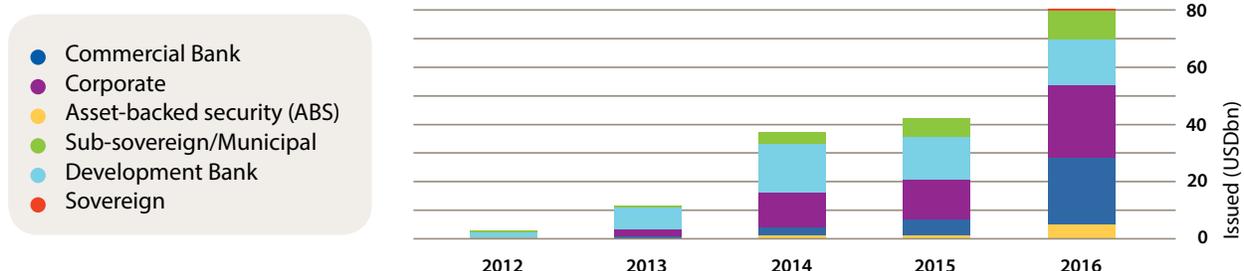
Who should you talk to next?

- Talk to your internal finance team to learn about the company's history and comfort issuing bonds.
- Reach out to bond issuers and underwriters, as most are equipped to offer green bonds. If your company has previously issued bonds, standard channels to market should be sufficient.
- Refer to the [Climate Bond Initiative](#), which maintains a database of experienced green bond underwriters and third-party verifiers.

Green Bonds



The Green Bonds Market 2012-2016



Source: Climate Bonds Initiative, <https://www.climatebonds.net/files/files/2016%20GB%20Market%20Roundup.pdf>

GREEN BONDS IN THE MARKET

Green bonds have grown in recent years. According to the [Climate Bonds Initiative](#), the global aggregate of green bond issuances increased from approximately \$41 billion in 2015 to \$81 billion in 2016. Corporations issued \$25.8 billion (31% of the total green bond market) worth of green bonds in 2016. The green bond market is expected to exceed \$100 billion in annual issuances in 2017 and \$1 trillion by 2020.

Green bonds are fixed income instruments with funds earmarked for projects that advance energy efficiency, renewable energy, climate change mitigation, and other areas of sustainability. They are attractive to investors that value protecting the environment and companies looking for a simple and stable source of capital.

In February 2016, [Apple issued \\$1.5 billion in green bonds](#). [Apple's Annual Green Bond Impact Report](#) includes information about 16 projects worth \$441.6 million initiated in fiscal year 2016. About 69% of spending was allocated to green buildings and energy efficiency and 29% to renewable energy. The remaining amount was allocated to water efficiency, recycling/material recovery, and safer materials. The 16 projects to which Apple allocated Green Bond funds are expected to result in: annual energy savings of 37 million kWh and 31,900 therms, annual water savings of 20 million gallons, annual renewable energy generation of 331 million kWh, and nearly 2 million square feet covered by green buildings.

In June 2017, [Apple issued \\$1 billion in green bonds](#). Apple plans to use the proceeds for renewable energy and energy efficiency projects at its facilities, for supply chain management, and to procure safer materials for its products. The offering also includes a specific focus on greening Apple's supply chain and using only renewable resources or recycled material, reducing its need to mine rare earth materials.

In May 2016, [Starbucks announced its first sustainability bond issuance](#). The company will use the net proceeds from the \$500 million offering to enhance coffee supply chain sustainability, including coffee purchases from suppliers that comply with their ethical sourcing verification program and the development and operation of farmer support centers in coffee growing regions. Starbucks will publish annual updates of the allocation of the proceeds throughout the term of the bond. For a retailer, the familiar structure of a bond offering combined with innovative green labeling make green bonds a great way to raise capital for energy projects at favorable rates while attracting positive press for a company.

Green bond proceeds can be used to advance energy and sustainability goals in retail stores, warehouses, distribution centers, and corporate offices. Companies interested in using green bonds should refer to:

- [Green Bond Guidelines](#) for the Real Estate Sector
- [Green Bond Principles](#)
- [Climate Bonds Standard](#)

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ENERGY EFFICIENCY FINANCE

There are many Energy Service Companies (ESCOs) actively trying to bring their cash and expertise to an untapped retail market. As ESCOs work to break into this new market, the types of financing they offer tends to have shorter contract terms and more flexibility. Newer energy service contracts can be customized according to the needs of a particular company with no upfront cost.

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ENERGY SERVICE AGREEMENTS (ESAs)



An Energy Service Agreement (ESA) is a pay-for-performance, off-balance sheet financing solution that allows customers to implement energy efficiency projects with zero upfront capital expenditure. Through the ESA, the ESA provider pays for all project development and construction costs. Once a project is operational, the customer makes service charge payments for actual savings. The price per unit of savings is a fixed, output-based charge that is set at or below a customer's existing utility price, resulting in immediate reduced operating expenses.

ESAs offer promise for retail energy retrofits because they limit risk while still providing an avenue for short-term energy and cost savings.

Why should you use it?

- Your company wants to pursue portfolio-wide installations or retrofits, but does not have cash for capital investments.
- Your company is risk averse and wants a third party to take on underperformance risk and provide project management.
- Your company is looking for a financing mechanism with a contract term as short as five years and the option to buy out annually.

Who has used it in the past?

The ESA is a proven structure that has been utilized to implement [numerous multi-million dollar retrofit projects at Fortune 500 and major institutional facilities](#). Overall, more than 100 projects have been completed using the ESA structure. Although retailers are just beginning to explore the option, many other corporations have already taken advantage of the benefits an ESA can offer.

Construction was completed in Q3 2016 for a [\\$4.2 million efficiency project at a Fortune 500 manufacturing facility](#) financed under Metrus Energy's ESA. This retrofit includes lighting, variable

frequency drives, and controls yielding \$628,732 in savings annually. This project is the first in a planned, multi-site ESA program that will include a diverse mix of site-specific, efficiency technologies and upgrades.

Companies like [Metrus Energy](#) and [Current by GE](#) offer ESAs and they report working with retailers and other fortune 500 companies.

What are the advantages?

- **Avoided Capital Outlay:** ESA provider pays for all upfront project costs, enabling customers to conserve capital funds for investment in their core business.
- **ESA Payments Treated as an Operating Expense:** The ESA is designed to be an off-balance sheet financing solution with regular payments that are similar to a standard energy utility bill or Power Purchase Agreement (PPA).
- **Energy Savings Pay for Projects:** The ESA enables customers to redirect a portion of their current utility spending to pay for efficiency improvements; ESA payments are based on realized energy and operational savings.



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- **Reduced Operating Costs:** ESA payments are set below the current utility price.
- **Enhanced Reliability of Operations:** ESA providers pay for periodic maintenance services to ensure long-term reliability and performance of the project equipment.
- **Flexible & Scalable Financing:** Under an ESA, as new opportunities for savings are identified they can be funded as they emerge and rolled out to additional buildings across facilities. ESA providers can bundle together multiple sites that have smaller project opportunities (\$500,000 or less) into a single ESA financing package (e.g., bundle 10 sites with \$500,000 projects into a single \$5 million ESA).

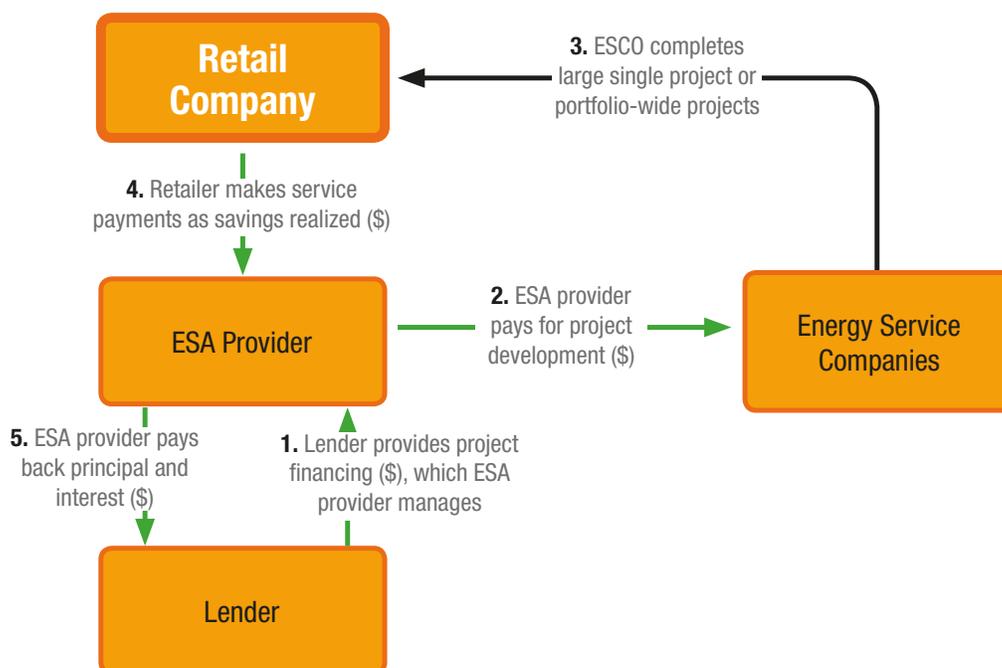
What are the downsides?

- Providers tend to look for larger project sizes (\$1 million and above).
- ESAs are only viable in leased space when the contract term matches the lease term.
- Transaction costs can be high if each deal is heavily negotiated; typical deals have a negotiation period of 9–24 months.

Who should you talk to next?

- Talk to your internal finance team to learn about the company’s history and comfort working with energy service providers.
- Reach out to [energy service providers](#) who offer ESAs to learn more about how they can help you meet your project goals.

Energy Service Agreements



ESAs IN THE MARKET

In an Energy Service Agreement (ESA), a single provider develops, finances, and owns energy efficiency measures and equipment installed in a customer's facilities during a contracted period (typically 5–15 years). An ESA customer enjoys lower utility bills throughout the contract term, but does not own installed equipment unless they buy out the contract or purchase the equipment at fair market value at the end of the ESA contract.

An ESA can be thought of as an energy efficiency version of a Power Purchase Agreement (PPA) commonly used to finance the installation of renewable energy systems. The customer does not take project performance risk since they only pay for savings actually achieved. Instead, the ESA provider takes the project performance risk and gets paid less if the project savings are less than expected.

In 2015, the global bank [Citi used an \\$8 million ESA to invest in efficient electricity and cooling](#) at one of its UK data centers, cutting energy use by an estimated 10%. A Combined Chilling/Heating and Power (CHP) system was installed together with energy-efficient cooling units and efficiency improvements to the building's air conditioning system. Citi hopes to implement a similar model in US facilities in the future. The Sustainable Development Capital's (SDCL) UK Energy Efficiency Investments Fund invested

in the project, corner-stoned by the UK Green Investment Bank and other institutional investors including the European Investment Bank. SDCL applies the same basic structure to its US projects.

BAE Systems, an international global aerospace company and client of Metrus Energy, has incorporated ESAs into its overall energy reduction plan. Thus far, [BAE has used ESAs at six of its sites](#) totaling \$11.3 million worth of efficiency improvements. As of October 2016, BAE has saved a total of \$6.7 million, equivalent to \$1.86 million annually. This project is a good example of the scalability of an ESA as BAE's projects are operational in three states.

Generally, an ESA is an effective tool for retailers looking to stabilize utility costs and make progress on their corporate social responsibility goals without making a large capital outlay. While ESAs offer long-term benefits due to the ability to buy out the contract and take ownership of installed equipment, their primary benefit is the flexible nature of the contract structure. An ESA would allow retailers to reduce energy consumption in stores, warehouses, distribution centers, and corporate offices with minimal management and little to no upfront costs.

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ENERGY PERFORMANCE CONTRACTS (EPCs)

Prepared By:



An Energy Performance Contract (EPC) is a financing mechanism executed by Energy Service Companies (ESCOs) who coordinate the installation of new equipment and split the value of energy savings with the customer throughout a contract term. The energy efficiency improvements are owned by the customer and may be installed with little or no upfront cost.

EPCs are one of the most successful and long-standing financing mechanisms specifically for energy efficiency. Although most EPCs to date have been used to fund government efficiency projects, they have also worked effectively for the private sector.

Why should you use it?

- Your company wants to invest in its facilities for the long-term (10–20 years).
- Your project consists of many energy conservation measures and you need third-party project management and expertise.
- Your company is pursuing a large installation or retrofit in one or more of your facilities, but you need upfront capital and an energy savings guarantee to move forward.

Who has used it in the past?

The federal government has utilized EPCs for over 20 years, investing more than \$3.49 billion in federal energy efficiency and renewable energy improvements. These improvements are generating more than 402 trillion Btu in life-cycle energy savings and more than \$8.71 billion of cumulative energy cost savings for the federal government.

According to National Renewable Energy Laboratory, [the ESCO industry secured only 8%](#) of its revenues from commercial and industrial clients in 2011, but today there is more attention on this segment of the market.

[Simon Property Group](#) has utilized EPCs to lower energy consumption and associated costs in some of its properties by working with [Ameresco](#). To date Simon and Ameresco have implemented more than \$20 million in efficiency measures and capital improvements at 42 properties throughout the United States, including Puerto Rico.

Some of the major ESCOs that offer EPCs are [Schneider Electric](#), [Constellation Energy](#), [NORESKO](#), [Ameresco](#), [Siemens](#), and [Johnson Controls](#). They report having worked with companies like Simon Property Group, BMW, Alcoa, General Motors, and others.

What are the advantages?

- **Avoided Capital Outlay:** There are little to no upfront costs.
- **Energy Savings Guaranteed:** Performance guarantees reduce project risks, which is valuable in large, complex retrofits.
- **Enhanced Reliability of Operations:** Projects are maintained through rigorous monitoring and verification by the company issuing the performance contract.



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- **Standardized Process:** ESCOs have a long history of contracting experience and standardized processes.
- **Flexible & Scalable Financing:** Most EPCs use Tax-Exempt Lease-Purchase Agreements, which is an effective alternative to traditional debt financing. It allows organizations to pay for energy upgrades by using money that is already set aside in its annual utility budget. EPCs can also be used for portfolio-wide initiatives.

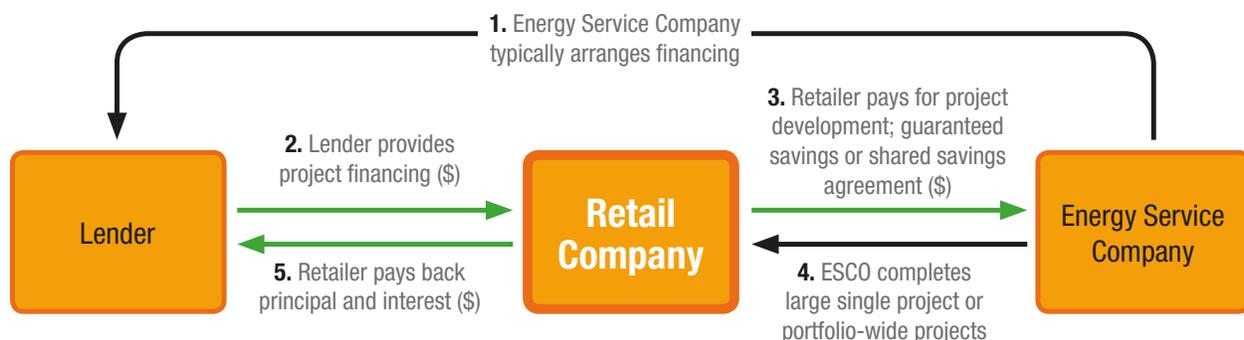
What are the downsides?

- EPCs can have high transaction costs and long negotiation periods (typically over a year).
- EPCs are not viable in leased spaces unless the lease term matches the contract term (average contract term is 17 years).
- EPCs will most likely be on balance sheet.
- Providers tend to look for larger project sizes (\$1 million and above).

Who should you talk to next?

- Talk to your internal finance team to learn about the company’s history and comfort working with energy service providers.
- Reach out to energy service providers like [Schneider Electric](#), [Ameresco](#), and [others](#) to learn more about how an EPC can help you meet your project goals.

Energy Performance Contracts



EPCs IN THE MARKET

In an Energy Performance Contract (EPC), energy efficiency improvements are owned by the customer and may be installed with little or no upfront cost. Typically, an Energy Service Company (ESCO) will play multiple roles, from originator and developer to the arranger of the financing. For very large retrofit projects this level of centralized coordination and project management can be extremely useful. After project construction and implementation is complete, the ESCO monitors the savings and may also provide service upgrades for a period of time.

EPCs are typically designed so that the value of energy savings is split between the customer and the ESCO throughout the contract term, such that the customer's total savings exceed all of their payments over the 10–20 year contract term. After the EPC term, payments to the ESCO cease and the customer operates and maintains the energy efficiency improvements and retains all energy savings. In many cases, an ESCO will guarantee a certain level of energy savings to the customer. If the guaranteed level of energy savings is not delivered, the ESCO will have to pay the difference between the guaranteed and the actual level of savings. An energy savings guarantee from a creditworthy ESCO can improve the finance ability of the EPC if the customer is securing financing.

[Simon Property Group has utilized EPCs](#) to lower energy consumption and associated costs in some of its properties by working with [Ameresco](#). Simon targeted several of its shopping malls

where upgrades included lighting and energy management systems to provide increased control of equipment, such as chillers, air handlers, and common-area lighting panels. In addition to energy efficiency, Simon was also able to address water efficiency with variable and/or low flow technology. To date Simon and Ameresco have implemented more than \$20 million in efficiency measures and capital improvements at 42 properties throughout the United States, including Puerto Rico.

[The Galleria & Tower at Erieview began using EPCs](#) to upgrade its antiquated mechanical systems and was guaranteed over \$1 million in energy savings annually. In addition to providing an on-site maintenance team, Brewer-Garrett installed new boilers, chillers, controls, pumps, and cooling towers allowing for optimal tenant comfort while reducing energy costs dramatically. As a result of the project, The Galleria & Tower at Erieview improved its public image, increased energy efficiency, and will have positive cash flow for 10 years. Because Brewer-Garrett also provided maintenance support, the Galleria & Tower at Erieview reduced their burden of managing utilities and operations and maintenance.

In sum, EPCs are ideal for retailers that hold or lease facilities long term (20 years or more). Although an EPC may not be the best option for individual retail stores, it could be a viable option to address the efficiency needs of warehouses, distribution centers, and corporate offices.

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SPECIALIZED FINANCING

Specialized financing options offer strong returns and are either enabled through legislation or local utility providers. When a city, state, or public utility leverages its bonding authority to make specific financing available for companies, the cost of capital is almost always lower than it would be in an unregulated market.

Legislatively authorized finance programs take many forms and can fund both large and small projects. Relatively new specialized lending mechanisms, like Property Assessed Clean Energy (PACE) and On-Bill Financing (OBF), are beginning to scale across jurisdictions, making these benefits available in facilities across the country.

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PROPERTY ASSESSED CLEAN ENERGY (PACE)

Prepared By:



Property Assessed Clean Energy (PACE) financing is a structure in which building owners take on debt for energy efficiency or renewable energy improvements that is repaid through an assessment on their property tax bill. The stability of the property tax bill allows building owners to make long-term investments in their buildings without being responsible for the outstanding debt if a building is sold. PACE is becoming a better-known financing mechanism for energy efficiency and renewable energy and has financed 750 commercial projects to date including upgrades valued at \$250 million.

The retail sector has invested approximately \$45.7 million using this model to date and represents the most frequent property type to use PACE financing. There is potential for PACE to grow in the retail sector, particularly as more states adopt enabling legislation.

Why should you use it?

- Your company owns stores, warehouses, distribution centers, and corporate offices and wants to make energy efficiency and/or renewable energy improvements, but you have limited access to capital.
- Your company prefers to pilot a project at a few locations before implementing more broadly.
- Your company does not hold its facilities long-term and wants to ensure that it can transfer obligations at the time of sale.

Who has used it in the past?

The retail sector has invested approximately [\\$50 million using this model to date, and represents the third most frequent property type to use PACE financing](#) behind nonprofits and commercial office.

Since 2014, BrandsMart, a retailer based in Florida, has [successfully arranged PACE deals in three of its stores](#). The deals ranged in size from \$1.8 million to \$3.1 million. At one location, BrandsMart is expecting to save 34% on its annual utility costs.

D.C. United, the District of Columbia's Department of Energy and Environment (DOEE), and EagleBank agreed to the [largest ever PACE project](#) in June 2017. The \$25 million package for an 884 KW solar array

and stormwater retention systems on Audi Field, United's new soccer stadium, will achieve LEED Gold certification.

While more established programs like [Sonoma County's Energy Independence Program](#) or [Connecticut's CPACE Program](#) have financed millions of dollars of improvements, many others are still developing. PACE legislation for commercial properties has been [adopted in 33 states and the District of Columbia](#).

What are the advantages?

- **Avoided Capital Outlay:** 100% financing with no upfront costs for the property owner (includes hard and soft costs).
- **Positive Cash Flow:** Positive cash flow and increased property value, even with long simple payback projects.
- **Transferability:** PACE assessments are linked to the property and automatically transfer to a new owner upon the sale of the property.
- **Favorable Terms:** Allows lenders the ability to offer better interest rates and longer repayment terms (up to 25 years) than is otherwise available. As PACE financing is repaid on the property tax bill, it offers strong security, which



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enables deeper energy efficiency and greater savings for projects.

- **Flexible Balance Sheet Treatment:** PACE may be structured to be off-balance sheet or on-balance sheet.

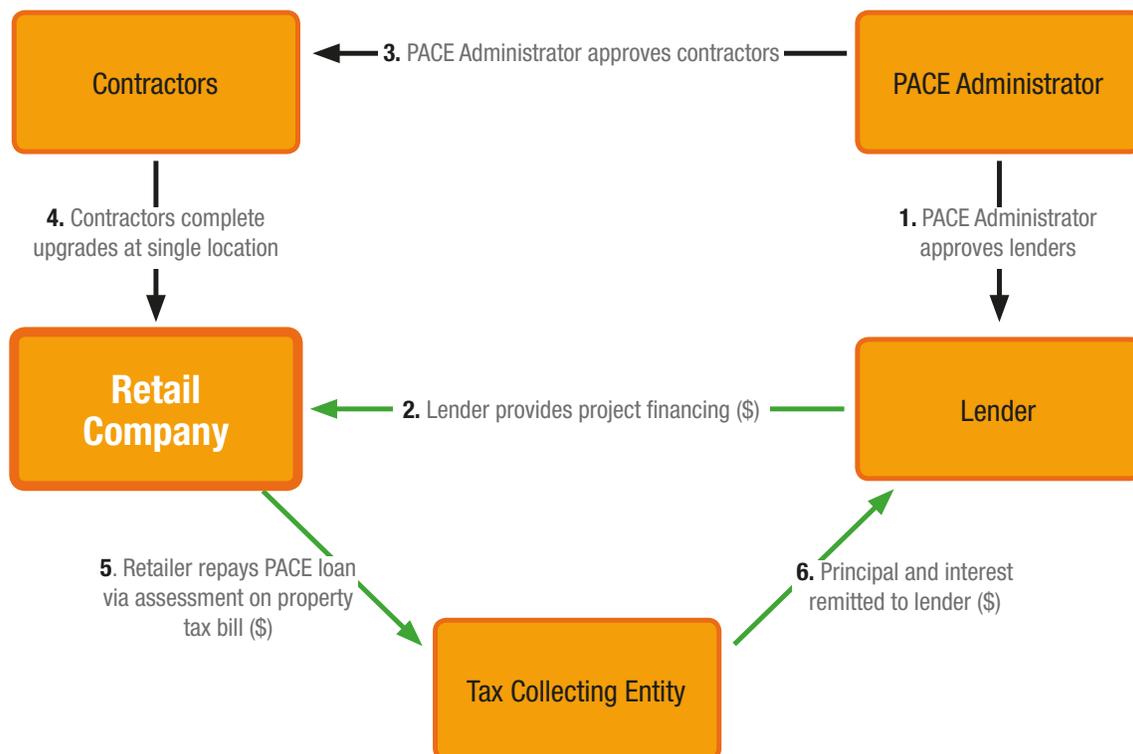
What are the downsides?

- PACE is best suited for building owners and mortgage holder approval is required.
- PACE is limited to jurisdictions with legislative PACE districts (currently more than [1,000 municipalities across the country](#)).
- PACE deals must be structured for individual properties, therefore it is necessary to go through a specialized lender to use PACE for large initiatives.
- There are legal and administrative expenses associated with the PACE financing process.

Who should you talk to next?

- Talk to your internal finance team to learn about the company’s history and comfort using tax assessments as financing.
- Reach out to [your local PACE administrator](#) to learn more about the program in your area.
- Refer to [PACENation](#), as they maintain the most up to date information about PACE and have many resources to assist you. You can also [contact a provider](#) directly.

Property Assessed Clean Energy



PACE IN THE MARKET

The Property Assessed Clean Energy (PACE) model is an innovative mechanism for financing energy efficiency and renewable energy improvements. PACE programs allow local governments, state governments, or other inter-jurisdictional authorities, when authorized by state law, to fund the upfront cost of energy improvements on commercial and residential properties.

Property owners repay their improvement costs over a set time period—typically 10 to 20 years—through property assessments, which are secured by the property itself and paid as an addition to the owners' property tax bills. Nonpayment generally results in the same set of repercussions as the failure to pay any other portion of a property tax bill. A PACE assessment is a debt of property, meaning the debt is tied to the property as opposed to the property owner(s), so the repayment obligation may transfer with property ownership depending upon state legislation. This eliminates a key disincentive to investing in energy improvements, since many property owners are hesitant to make property improvements if they think they may not stay in the property long enough for the resulting savings to cover the upfront costs. PACE legislation for commercial properties has been adopted in [33 states and the District of Columbia](#).

Completed commercial PACE deals have ranged from \$2,000 on the low end to \$8.4 million on the high end. Some PACE districts allow building

owners to extend their Loan-to-Value ratio (LTV) beyond typical limits, which allows owners to get additional financing for energy efficiency or sustainability improvements beyond what a lender would typically allow.

BrandsMart, a retailer based in Florida, worked with the clean energy financier [Ygrene Works](#) and [Florida Green Energy Works](#) to successfully arrange PACE deals in three of its stores. [The deals ranged in size from \\$1.8 million to \\$3.1 million](#), for a total of \$7.1 million financed. The latest deal, worth \$3.1 million in BrandsMart's Miami Gardens store, is expected to generate \$310,000 in savings annually. The stability of property tax repayment, alongside lowered upfront costs, allows retailers to pursue energy efficiency projects that extend beyond the typical limits of their company's internal payback or hurdle rate.

A building owner is the greatest beneficiary of PACE financing, which makes it a viable option for retailers that own their buildings. For that same reason, the benefits of PACE for a retail tenant are significantly reduced and other options may better suite their energy efficiency and renewable energy needs. However, if any part of a retailer's portfolio is owned, including stores, warehouses, distribution centers, and corporate offices, PACE is an attractive option to pursue deep retrofits at low cost.

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ON-BILL FINANCING (OBF) AND ON-BILL REPAYMENT (OBR)

Prepared By:



On-bill financing (OBF) and repayment (OBR) are financing options whereby a utility or lender supplies capital to a utility customer to make energy efficiency improvements and is repaid through regular monthly loan payments on an existing utility bill. One of the benefits of these programs is the potential to serve a broad set of retailers, including retailers in both owned and leased spaces.

OBF and OBR have been successful across the country and are great mechanisms for retailers that have control over their utility bills in eligible utility territory. OBF and OBR can be particularly appealing due to their short terms, low to zero interest rates, and convenient structures.

Why should you use it?

- Your company is looking for a simple mechanism to finance energy efficiency projects that lower utility bills and benefit your bottom line.
- Your company is open to low- or zero-interest loans specifically for energy efficiency that are paid for with energy savings directly on your utility bill.
- Your company is seeking financing for specific energy conservation measures with a short to medium payback period (2-5 years).

Utilities across the country have their own variation of OBF and OBR programs, including, but not limited to: [Eversource](#), [Pacific Gas and Electric](#), and [Southern California Edison](#). Specific programs vary by utility.

What are the advantages?

- **Convenient Structure** – Paying back the loan directly on the utility bill is convenient. A majority of customers see a reduction or no change in their bill.
- **Great for Leased Space:** So long as the retailer is billed by the utility or is authorized to be considered an extension of the utility customer, it is a viable option for those in leased space.
- **Flexibility:** There is flexibility for retailers who wish to change locations, as the repayment obligation can be passed along to future tenants.
- **Favorable Rates & Standardized Processes:** Low- to zero-interest rates are available, as programs are typically ratepayer funded. There are reduced program costs because of standardized processes.

Who has used it in the past?

Commercial on-bill programs have been successful across the country and have lent more than \$200 million for efficiency projects since 2000.

Several retailers in the food and grocery industry have utilized on-bill programs in recent years with favorable results. A grocer based in California qualified for a \$100,000 zero-interest loan through PG&E and is saving over \$20,000 per year. The company leveraged the program to add to its bottom line and now uses 42% less energy made possible by a (zero-interest) loan that will be repaid in full via its utility bill in fewer than 5 years.



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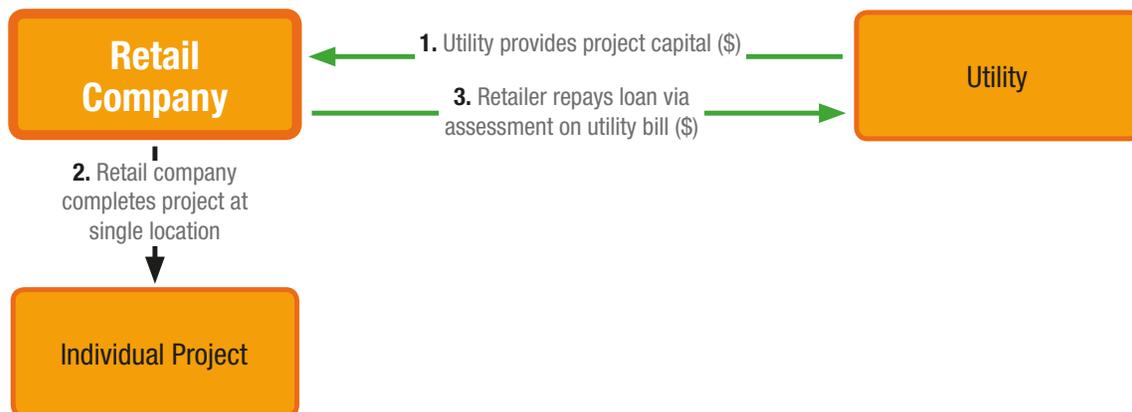
What are the downsides?

- On-bill programs are only offered by select utilities and program specifications vary by utility. Therefore, on-bill financing may be difficult to implement as a portfolio-wide initiative.
- On-bill programs are not suited for very large projects.
- The consequence of non-repayment is utility disconnection.
- Savings are not guaranteed, so returns rely on accuracy of projected energy savings.

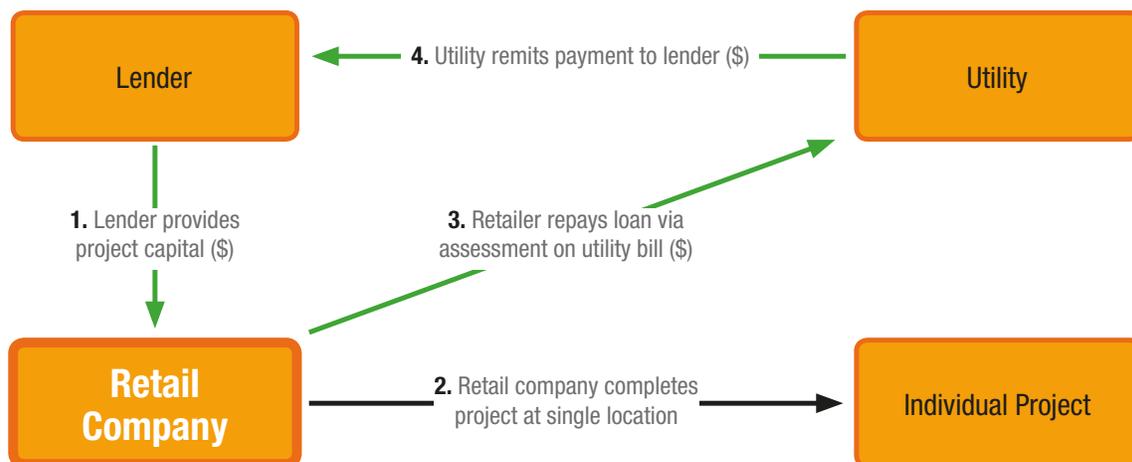
Who should you talk to next?

- Talk to your internal finance team to learn more about the company’s history and comfort with utility financing programs.
- Reach out to your local utility to inquire about the on-bill programs in your area or visit the Database of State Incentives for Renewables & Efficiency at www.DSIREUSA.org.

On-Bill Financing



On-Bill Repayment



ON-BILL IN THE MARKET

On-bill financing (OBF) and repayment (OBR) are financing options whereby a utility or lender supplies capital to a utility customer to make energy efficiency improvements and is repaid through regular monthly loan payments on an existing utility bill. One of the benefits of these programs is the potential to serve a broad set of retailers, including retailers in both owned and leased spaces.

When funds are provided by the utility, the repayment structure is termed OBF. OBR is when a private financial institution extends loans to utility customers and relies on the utility's bill presentment function for repayment. On-bill programs have mostly focused on energy efficiency measures, though renewable energy and water efficiency projects may be eligible as well. On-bill programs vary by state and by provider, and each program has its own terms and processes.

Commercial on-bill programs have been successful across the country and have lent at least \$197 million for efficiency projects. Two successful programs are offered by [Pacific Gas and Electric \(PG&E\)](#) and [Eversource \(formerly included CL&P\)](#). PG&E offers loans ranging in size from \$5,000 to \$100,000 and has financed \$65 million worth of projects since the program began in 2010. Eversource's Small Business Energy Advantage program has completed over 7,000 loans since its inception in 2000 with an average loan size of just over \$10,000.

Several retailers in the food and grocery industry have utilized on-bill programs in recent years with favorable results. A grocer based in California qualified for a \$100,000 zero-interest loan through PG&E and is saving over \$20,000 per year. The company was able to use the program to add to its bottom line and now uses 42% less energy in its facility, enabling them to achieve a [Green Business Certification](#). The facility will repay its loan in full in fewer than 5 years.

Lawrance Furniture, with help from San Diego Gas and Electric (SDG&E), [recently replaced 400 existing halogen bulbs with energy-efficient LEDs](#). SDG&E rebates covered up to 25% of the cost of the new bulbs and On-Bill Financing helped Lawrance pay for the cost with a 0% interest on their monthly bill. Lawrance Furniture expects annual energy cost savings of \$10,000 to \$12,000. In only 18 months, Lawrance Furniture will be able to pay back its loan and will continue to benefit from a 25% reduction in its energy bills.

In sum, on-bill programs are perhaps the best fit for retailers looking for a quick solution to finance energy efficiency upgrades and reduce utility expenses. Not only can the energy and cost savings be significant, but on-bill programs also typically achieve a 2 to 5 year payback period, which meets most retailer's internal payback threshold. Contact a local utility or visit the Database of State Incentives for Renewables & Efficiency at [DSIREUSA.org](#) for more information about the on-bill programs in your area.

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Prepared By:



TAX INCREMENT FINANCING (TIF)

Tax Increment Financing (TIF) is a financing option that uses expected future gains in state or municipal property taxes from a development or redevelopment project to finance improvements that will create those gains. It has been used as a community development tool for decades. TIF is offered by jurisdictions to attract private capital to boost local economies and attract unique, innovative projects.

TIF is a great source of gap financing, which can increase the financial feasibility of projects. It has been used in various sectors including retail, commercial, residential, and mixed-use development. For a retailer, TIF would help improve the returns on sustainability components of a major retrofit or new construction, such as the addition of solar PV panels or the construction of an efficient prototype.

Why should you use it?

- Your company wants to build a new store or rehab an existing store.
- Your company needs gap financing to increase the viability of a project.

Who has used it in the past?

TIF has been used as a community development tool for decades in various sectors including retail, commercial, residential, and mixed-use development.

In 2003, a Target Retail Center in Millville, N.J., which occupies 125,000 square feet of retail space, used TIF. With total development costs of \$13 million, the city agreed to provide \$1 million toward the cost of infrastructure improvements. Target incurred the costs, and the city reimbursed the \$1 million. Additionally, the city agreed to a 15-year tax abatement, with payments in lieu of taxes being paid on the basis of 2% of project cost.

Other retailers that have recently leveraged TIF are [Under Armour](#), [Shoprite](#), [Kohl's](#), [Dick's Sporting Goods](#), [Circuit City](#), [Lane Bryant](#), [Starbucks](#), [Macy's](#), and [JC Penney](#).

What are the advantages?

- **New Construction and Major Rehabs:** TIF can be used to finance costs associated with building new infrastructure or rehabbing existing infrastructure, including energy conservation and other sustainability measures.
- **Not New to the Retail Sector:** Many retailers have already taken advantage of TIF.
- **Community Development Yields Positive Press:** Being a part of a larger community development project can bring positive press and improve the company's image.

What are the downsides?

- The TIF process can be time consuming (more than a year), as deals require cooperation from multiple entities (including local government) and often require customized terms or subsidies.
- A single retailer's influence can be diluted because many players are involved in developing the terms of the deal.
- The developer often secures other sources of financing, which could result in debt for retailers that do not have the upfront capital.
- Projects are confined to TIF districts, so it cannot be used for portfolio-wide initiatives.

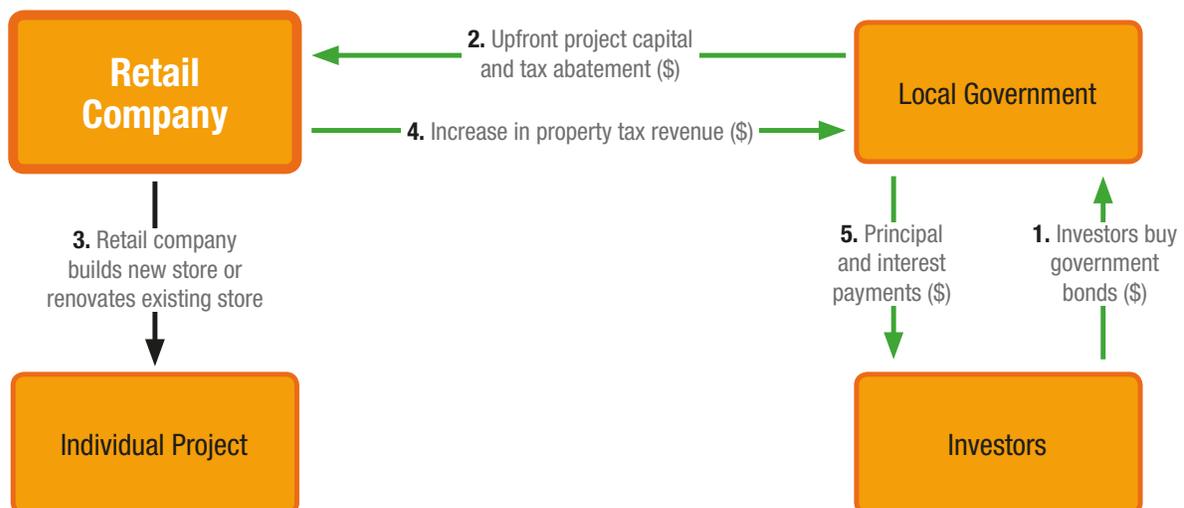


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Who should you talk to next?

- Talk to your internal finance team to learn about the company’s history and comfort with community development projects and tax abatements.
- Reach out to local TIF district officials to learn more about potential projects in your area ([49 states and the District of Columbia have enabled TIF through legislation](#)).
- Refer to the [Tax Increment Finance Best Practices Reference Guide](#) and the [Council of Development Finance Agencies](#) for more information.

Tax Increment Financing



TIF IN THE MARKET

Tax Increment Financing (TIF) is a financing option that uses expected future gains in state or municipal property taxes from a development or redevelopment project to finance improvements that will create those gains. It has been used as a community development tool for decades. TIF is offered by jurisdictions to attract private capital to boost local economies and attract unique, innovative projects.

TIF is a great source of gap financing, which can increase the feasibility of projects. Gap financing is a secondary source of capital for a large project (a bank loan or mortgage is typically the primary source) that can be used to finance energy efficiency improvements. TIF has been used by many retailers including [Shoprite](#), [Kohl's](#), [Dick's Sporting Goods](#), [Circuit City](#), [Lane Bryant](#), [Starbucks](#), [Target](#), [Macy's](#), and [JC Penney](#).

In 2003, the city of Millville, N.J. designated 821 acres as a TIF district. This designation spurred development including the [Goodmill Shopping Center and a Target Retail Center](#). The Goodmill Shopping Center is a 500,000 square foot facility whose tenants include ShopRite, Kohls, Starbucks, and others. The development cost for this project was \$55 million.

A Target Retail Center, which occupies 125,000 square feet of retail space, is connected with the Goodmill Shopping Center but under separate ownership. Development costs for Target were \$13 million.

The New Jersey Economic Development Authority (NJEDA) supported the Goodmill Shopping Center project and provided critical financing. NJEDA committed \$22.5 million in New Markets Tax Credit funding, which made the project feasible. The City also agreed to provide \$1.5 million toward the costs incurred by it for infrastructure improvements necessary for the site and facilities construction. As part of the agreement, Goodmill incurred the costs and was reimbursed by the city. The city provided an additional financial incentive: a five-year tax abatement, with payments in lieu of taxes increasing by 20% annually. Similarly, with Target, the city agreed to provide \$1 million toward the cost of infrastructure improvements. Target incurred the costs, and the city reimbursed the \$1 million. Additionally, the city agreed to a 15-year tax abatement, with payments in lieu of taxes being paid on the basis of 2% of project cost.

In sum, TIF should be viewed primarily as a financing mechanism for large individual projects with community development at the core. Although sustainability has not been the focus of TIF in the past, it would be appropriate to include as part of a TIF project. For more information on TIF and additional case studies see the [TIF Fact Sheet](#) and the [Tax Increment Finance Best Practices Reference Guide](#).

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ADDENDUM

Summary of Financing Options



Summary of Financing Options

Energy Efficiency Financing Mechanism	Viable in Leased Space	Off Balance Sheet	Available in all Jurisdictions	Project Size	3rd Party Involvement	100% Project Financing	Finance Term	Overcome Hold Barrier	Lead Time Required to Get Financing
Major Initiatives Green Bond	Yes	No	Yes	Typically \$5,000,000 or more	Yes, bond issuance is done through traditional bonding process.	Yes	Until bond maturity, typically 5-10 years	Yes	6 months or less
Traditional Energy Efficiency Financing Energy Service Agreement	Yes, if contract term matches lease term	Yes	Yes	\$1,000,000 or more	An energy service provider offers project management	Yes	5-15 years	Yes, if new owner adopts or buys out contract	9 to 24 months
Energy Performance Contract	No	Unlikely, pending FASB	Yes	\$1,000,000 or more	An Energy Service Company provides project management	Yes	10-20 years	No	1 year or more
Property Assessed Clean Energy	No	Likely, pending FASB	No, need legislatively mandated PACE district	\$25,000+	PACE involves multiple entities including program administrators and often a specialized lender	Yes	10-25 years	Yes	6 months or more
On-Bill Financing/Repayment	Yes, if retailer is billed by the utility or is authorized to be an extension of a utility customer	Unlikely, pending FASB	No, only offered by select utilities	Typically \$5,000-\$100,000	For On-Bill Financing, no. For On-Bill Repayment, a private financial institution extends the loan.	Yes	Typically 2-5 years, but some programs offer longer terms	Yes, if on-bill financing No, if on-bill repayment	3 months or less
Tax Increment Financing	No	Yes	No, need legislatively mandated TIF district	None, but to use TIF any project must be rolled into a larger construction or retrofit project (\$10,000,000+)	TIF involves multiple entities including local government, development authorities, and project developers	No, gap financing	The maximum amount of time the increased taxes are redirected to the project varies from 10 to 30 years	No	1 year or more