Ohio | Ohio Air Quality Development Authority

Energy Efficiency Financing: Different Needs, Different Models

The key to financing energy efficiency investment is flexibility. Each project has its own criteria and objectives; successful financing must be molded to fit. The Ohio Air Quality Development Authority ("OAQDA") has developed various models and has used them either alone or in combination for projects. Those benefiting from these structures include businesses, educational institutions, publicly owned facilities and government. In the descriptions below, all beneficiaries are referred to as the "entity."

Performance based lease to own (turnkey): Energy efficiency project is leased by the entity from a vendor over an agreed upon term. Debt is carried by either the vendor or the entity. Lease payments are set based upon the energy cost savings realized by the project. At end of lease, entity takes full ownership of project. Energy cost savings can either be projected or guaranteed. A guarantee may be provided by the vendor or through an insurance policy.

Performance based installment purchase: Identical to above, except entity takes proportional ownership as lease payments are made.

Direct purchase: Entity finances a direct purchase of the energy efficiency project. This model is most frequently used when the project entails replacing equipment with more energy efficient models or processes.

Public institution or nonprofit tax exempt: If the end user (final owner) of the project is eligible for tax exempt financing, any of the models can be so structured. This can result in considerable savings in project interest expenses. "Tax exempt financing" is a term used to describe financing for which the interest payments are exempt from federal income tax. Eligibility is determined by federal rules and regulations.

Private sector taxable: Private sector energy efficiency projects rarely qualify for tax exempt status. However, OAQDA financing does provide significant state based tax incentives. These include exemption from assessment of real and personal property, sales and use taxes. In addition, interest payments of OAQDA financings are exempt from state income tax.

Leveraged improvements: Entity chooses to invest in a project whose cost is greater than the anticipated annual savings will support. In this case, the savings allow a larger undertaking than would normally be possible. The most frequent occurrence of this model is in cases in which different components have drastically different pay back times. (For example, new efficient lighting can pay for itself through savings in three years or less; a boiler might require 15-20 years. The entity will choose to finance the project over a period of time less than the longer pay back period.)

Aggregated municipal leases: Local governments investing in energy efficient equipment, e.g., LED traffic signals, can aggregate orders through an OAQDA financing to achieve benefits of scale in interest rate and unit pricing.

Capital investment through operating budgets: Many entities have different internal structures and limitations for capital projects. Energy efficiency investments, through performance based contracts, can result in significant capital improvements paid for through operating budget savings.