



**NEIF** Commercial  
Energy Finance

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NATIONAL ENERGY IMPROVEMENT FUND

# Finance Toolkit

THE NEIF COMMERCIAL ENERGY FINANCE PRODUCT SUITE

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# What is the Finance Toolkit?

NEIF Commercial Energy Finance offers a suite of finance products we call our “finance toolkit” to ensure customers end up with the tool that best suits their needs, including:

- \* Equipment Finance Agreements
- \* Equipment Leases (\$1 Buyout)
- \* Municipal Tax-exempt Lease Purchases
- \* Energy Service Agreements
- \* Commercial PACE
- \* Solar Financing Options (Equipment Lease, FMV, and PPA)

Our years of experience specializing in clean energy finance program development and policy work mean we have an unparalleled understanding of what works in the marketplace and what it takes to get your project done.

Use this packet to better understand the financial products NEIF keeps in its finance toolkit and which product may work best for your upcoming project.

## Any questions?

We would love to answer them!  
Contact the NEIF Commercial Energy Finance team:

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- Email** | [commercialfinance@neifund.org](mailto:commercialfinance@neifund.org)
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- Website** | [www.neifund.org](http://www.neifund.org)



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# Equipment Finance Agreement (EFA)

An Equipment Finance Agreement (EFA) is the most common and simple financing mechanism used to pay for energy upgrades. An EFA is very similar to a traditional loan. Leases and EFAs are similar, but for an EFA the borrower pays sales tax directly.

## Eligible Borrowers

Commercial and Non-Profit Borrowers

## Customer Payments & Contractor Disbursements

**Customer** makes fixed monthly payments directly to the lender. 3-6 month deferred payment plans are available to well qualified customers. Customer owns the equipment upfront, upon installation.

**Contractor** funding disbursed directly upon project completion. NEIF can also arrange a progress payment to the contractor of 50% of the total financed amount to pay for equipment up-front. (100% in some cases).

## Collateral

The equipment being financed serves as collateral (no real estate collateral). Personal guarantee not typically required.

## Tax Implications

**Payment of taxes:** Borrower is responsible for paying all property and other taxes related to the equipment. Borrower pays sales tax.

**Tax advantages:** Borrower receives benefit of all tax advantages, such as federal 179 or 179D.

## Advantages

- ✓ Limited Paperwork (typically 1-2-page application)
- ✓ Approvals within 1-2 days
- ✓ Only collateral required is the financed equipment
- ✓ High approval rates
- ✓ Interest rate buydowns available (Premium Contractors Only)

## Disadvantages

- ✗ Appears as a balance sheet item, which may be undesirable for some customers (many do not care).
- ✗ Term generally limited to 7 years, although longer terms may be available.

### **Loan Amount**

\$3,000 to multi-million

### **Loan Term**

Up to 7 years  
(up to 15 years in some cases)

### **Interest Rate**

Commercial: 4.99 - 11%  
Non-Profit: 4.5 - 8%

*Please note:* Final rates are dependent on customer credit review.

### **Speed**

Instant finance proposals;  
Credit approval typically in 1-2 days after application

### **Balance Sheet**

On Balance Sheet

# Equipment Lease

An equipment lease (aka \$1 Buyout) is the most common and simple financing mechanism used to pay for energy upgrades. Leases and EFAs are similar, but for a lease the lender pays sales tax and includes it in the total financed amount.

## Eligible Borrowers

Commercial and Non-Profit Borrowers

## Customer Payments & Contractor Disbursements

**Customer** makes fixed monthly payments directly to the lender. 3-6 month deferred payment plans are available to well qualified customers. Customer owns equipment outright after paying \$1 at the end of term.

**Contractor** funding disbursed directly upon project completion. NEIF can also arrange a progress payment to the contractor of 50% of the total financed amount to pay for equipment up-front. (100% in some cases).

## Collateral

The equipment being financed serves as collateral (no real estate collateral). Personal guarantee not typically required.

## Tax Implications

**Payment of taxes:** Borrower is responsible for paying all property and other taxes related to the equipment. Lender pays sales tax, which is included in total financed project cost.

**Tax advantages:** Borrower receives benefit of all tax advantages, such as Federal 179 and 179D

## Advantages

- ✓ Limited Paperwork (typically 1-2-page application)
- ✓ Approvals within 1-2 days
- ✓ Only collateral required is the financed equipment
- ✓ High approval rates
- ✓ Interest rate buydowns available (Premium Contractors Only)

## Disadvantages

- ✗ Appears as a balance sheet item, which may be undesirable for some customers (many do not care).
- ✗ Term generally limited to 7 years, although longer terms may be available.

### Lease Amount

\$3,000 to multi-million

### Lease Term

Up to 7 years  
(up to 15 years in some cases)

### Interest Rate

Commercial: 4.99 - 11%  
Non-Profit: 4.5 - 8%

*Please note:* Final rates are dependent on customer credit review.

### Speed

Instant finance proposals;  
Credit approval typically in 1-2 days after application

### Balance Sheet

On Balance Sheet

# Municipal Tax-Exempt Lease Purchase

A Municipal Tax-Exempt Lease Purchase (TELP) is a well-established financing vehicle for energy conservation and upgrade projects. TELPS offer lower rates terms than are accessible to non-profit and commercial properties. A TELP is an alternative to issuing bonds.

## Eligible Borrowers

Public Borrowers (e.g. municipalities, school districts, etc.)

## Customer Payments & Contractor Disbursements

### Customer:

Payments made by tax exempt entity to the lender. Cost of issuance is born by the Lessor.

**Contractor:** For smaller projects (approx. <\$250,000), funding disbursed directly upon project completion with 50% progress payments available. For larger projects (approx. >\$250,000), at closing, proceeds fund into an escrow account, allowing contractors to be paid throughout construction.

## Collateral

Secured by the equipment installed. Typically, the Lessor files a UCC-1 to register a 1<sup>st</sup> position lien on equipment for the duration of the Lease.

## Tax Implications

None. Tax-exempt entities do not pay taxes.

## Advantages

- ✓ Low rates and long terms
- ✓ Designed for public borrowers and is an alternative to issuing bonds. Simple process & low transaction costs.
- ✓ A TELP is not constitutional debt. TELPs are subject to the annual appropriation of funds, which means it is only considered a debt in the fiscal period in which it is budgeted.
- ✓ Secured only by the equipment installed.
- ✓ Does not require a full faith & general obligation municipal credit pledge.
- ✓ Does not require voter approval, only Board approval, allowing a typical transaction time of 2 - 3 weeks.

### Lease Amount

\$10,000 to multi-million

### Lease Term

2 – 15 years (sometimes longer terms for well qualified projects)

### Interest Rate

2-5.5%

Fixed, tax-exempt rates for term; 30-45-day rate locks (private placement)

*Please note:* Final rates are dependent on customer credit review.

### Speed

Completed in as little as 2 weeks

### Balance Sheet

Not relevant, but important if classified as debt and could impact the muni's rating.

## Disadvantages

- ✗ Only available to tax-exempt entities
- ✗ Could impact “debt” limitations in some cases (but not all)
- ✗ The “obligation to pay” must be acceptable to the borrower. In the past, “subject to funding” was the most common obligation, however some jurisdictions have challenged this.

# Energy Service Agreement (ESA)

An Energy Service Agreement (ESA) is payment mechanism that allows customers to pay for energy upgrades through energy cost savings.

## Eligible Borrowers

Most appropriate for commercial and non-profit properties

## What type of customer would use an ESA?

Customers who: Cannot or who have difficulty taking on new debt; Would prefer to use their operating budget to pay for energy improvements; and/or, Face a barrier in accessing capital budgets.

## Customer Payments & Contractor Disbursements

ESA payments may vary based on energy savings delivered. In contrast, a lease involves a fixed monthly payment regardless of realized energy savings.

## Collateral

The ESA provider owns, maintains, insures, and controls operation of the equipment through the life of the ESA. In contrast, the customer performs all those functions in a lease agreement.

## Tax Implications

Ownership of equipment remains with ESA Provider, therefore the ESA Provider benefits from any relevant tax deductions, such as accelerated tax depreciation. Sales or other taxes associated with the equipment are embedded in service agreement.

## Advantages

- ✓ Typically, is off-balance sheet\* and off-credit (obligation does not appear on balance sheet & doesn't appear in financial statement notes) \*Please check with your accountant to understand how this applies to your situation
- ✓ An ESA is generally viewed as an operating expense. In contrast, a lease is viewed as a capital expense for acquisition of equipment.
- ✓ Savings begin on day 1
- ✓ Payments generally tied to & reflect savings

## Disadvantages

- ✗ Despite its advantages, ESAs are newer to the market and can therefore be more complex to structure than a lease.
- ✗ ESA providers take a greater risk than they would for an equipment lease, therefore underlying cost of capital can be higher for a service agreement.
- ✗ An ESA typically requires measurement of energy and energy costs saved, which may add to project cost. In contrast, a lease does not require any energy savings measurement.

### **ESA Amount**

Most appropriate for large projects, typically \$100,000 +

### **ESA Term**

2-10 years, depending on project size

### **Interest Rate**

No rate disclosed to customer. Payment based on energy savings to customer, not rate.

### **Speed**

Days to weeks, depending on transaction complexity

### **Balance Sheet**

Generally viewed as an Off-Balance Sheet item (Check with your accountant)

# Property Assessed Clean Energy (PACE)

Commercial PACE is an innovative financing tool that makes it possible for owners of commercial, industrial, multifamily, and nonprofit properties to obtain low-cost, long-term financing for energy efficiency, water conservation, renewable energy projects, and resilience measures like stormwater management with no upfront costs. PACE programs are enabled by local and/or state governments, who, in turn, collect PACE payments through annual property taxes. (Go to [www.pacenation.org](http://www.pacenation.org) to find out if PACE is available in your jurisdiction).

## Eligible Borrowers

Commercial and Non-Profit Borrowers

## Customer Payments & Contractor Disbursements

Payments are made through a voluntary assessment line item on the property tax bill and collected by the local jurisdiction (city or county). Those payments are then disbursed to the original lender.

The PACE assessment is tied to the property, meaning the repayment obligation transfers to the next owner if the property is sold. Consequently, many PACE programs require existing senior mortgage lender consent to a property owner assuming a PACE obligation.

## Collateral

The underlying property serves as the collateral for C-PACE. Like property taxes and other municipal assessments, PACE assessments are recorded as a lien in a senior position to other property liens, including mortgages. Failure to pay the property tax bill results in foreclosure or other related remedies. C-PACE investors are entitled to some recovery of amounts due to them from the foreclosure sale. Payments are thus very secure for PACE investors.

## Tax Implications

Increases property taxes, but increase is offset by reduction in energy costs. Owner takes advantage of tax benefits arising from the renewable energy or efficiency equipment. Owner pays any sales or other taxes on equipment.

## Advantages

- ✓ Long terms, up to 30 years & low payments
- ✓ Generally considered off-balance & off-credit.
- ✓ Burden of payments often passed to tenants
- ✓ Transferable upon sale of property

## Disadvantages

- ✗ Requires disclosure if property changes hands. Some buyers may require PACE to be paid off as a term of sale.
- ✗ Longer application, approval, & closing process. Most appropriate for larger projects (\$250,000+)
- ✗ Requires mortgage holder consent.
- ✗ Not available in all jurisdictions.

### Loan Amount

\$250,000 +

### Loan Term

Up to 30 years

### Interest Rate

Typically, 6 – 8%

### Speed

Typically, 3 - 6 weeks

Process varies significantly from one jurisdiction to another

### Balance Sheet

Generally viewed as an Off-Balance Sheet item (Check with your accountant)

# Solar Financing Options

## Equipment Lease

A company that has the appetite for the federal investment tax credit agrees to pay a fixed monthly “rent” or lease payment for the solar system with a \$1 buyout payment at the end of the term.

## Fair Market Value Lease (FMV)

A company that does not have the appetite for the federal investment tax credit agrees to pay a fixed monthly “rent” or lease payment for the system with a fair market value payment of the system at the end of the term.

## Power Purchase Agreement (PPA)

Instead of paying to “rent” the solar system, a company agrees to purchase the power generated by the system at a per-kWh price.

### Solar Finance Product Guide

	Equipment Lease	FMV	PPA
Is the system size < 100 kW?	✓	✓	
Is the system size > 100 kW?	✓	✓	✓
<b>Yes</b> , customer has an appetite for the tax credit.	✓		
<b>No</b> , customer does not have an appetite for the tax credit.		✓	✓

## Basic Product Terms:

### Equipment Lease

- ✦ Available to C&I, MUSH and Non-profit markets
- ✦ Rates: 3.5 – 13%
- ✦ Terms: 2 – 30 years (Projects < \$500k 2 – 7 years & Projects > \$500k 10 – 30 years)
- ✦ No upfront costs

### Fair Market Value Lease (FMV)

- ✦ Must be a for profit commercial entity
- ✦ Fixed monthly payment – no stated interest rate
- ✦ Term: 7 years (Minimum project size is \$50,000)
- ✦ Buy-out at the end of the lease term for fair market value
- ✦ No upfront costs

### Power Purchase Agreement (PPA)

- ✦ Available to C&I, MUSH and Non-profit markets
- ✦ Payment amount based on kWh generated and kWh rate
- ✦ Terms: 15 – 30 years
- ✦ No upfront costs
- ✦ Ask about a special PPA for commercial & non-profit projects 250 kW+ where the customer does not pay for energy for the first year