

BANK 50: ANNUAL RANKING OF THE TOP BANK LEASING COMPANIES

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2008 TECHNOLOGY ISSUE:

## Leasing Technology — Strategies for Enabling Growth

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ALSO INSIDE:

Going Green...  
Funding Energy  
Efficient Projects

## Going Green: Tips for Financing Energy Efficient & Green Projects

Even though energy efficient technology is on the tongues of many, from local governments to this year's presidential contenders, it can still be a hard sell. Many companies continue to delay their energy improvements because they feel they do not have the funds to upgrade. But there is help... Neil Zobler explains

By Neil Zobler



**Neil Zobler**  
President, Catalyst  
Financial Group, Inc.

Our firm's byline has been "financing for a sustainable economy" since 1992. This year is the first time we do not have to explain to our clients what this means. The marketplace seems to be embracing the concept of sustainable, green business.

### Markets Seek Energy-Saving Options

In a January 2008 article about climate change, Renee Kirk wrote in *Forbes Magazine*, "If the industrial and information ages have brought us to this precipice, perhaps it is time to usher in the 'age of sustainability' to lead us out of this very

frightening mess that we've gotten ourselves into."<sup>1</sup>

When G[eneral] M[otors] "is on track to reduce the greenhouse gas emissions ... by 40% ... by the year 2010, while achieving significant cost savings through better energy choices"<sup>2</sup> you know that sustainability is becoming mainstream. In fact, as of April 23, 2008, the U.S. Environmental Protection Agency (EPA) Climate Leader's Program<sup>3</sup> (an industry-government partnership that provides guidance and recognition to companies developing long-term climate change strategies) has 165 Climate Leader Partner Companies, about 50% of which are in the Fortune 500.

Yet, many companies and organizations continue to delay their energy improvements because they feel they do not have the funds in their current budgets and they are reluctant to finance the upgrades.

### Help Clients Change Their Behavior

Energy efficiency projects and financing are a match made in heaven for both public and private sector clients. Surely, any project for which the energy savings are greater than the cost of financing should be an "easy

sell." Nevertheless; many of these projects are unnecessarily delayed because of internal barriers and misperceptions that continue to exist.

Clients that use traditional financial metrics like IRR or ROI to prioritize projects automatically place energy efficiency projects at a disadvantage unless the "avoided costs" (dollars paid to the utilities for wasted or underutilized energy) are reflected in the calculation. Energy efficiency projects tend to have long sales cycles, in part because a sense of urgency (the cost of delay) has not been effectively demonstrated and communicated to the client. And delayed projects often turn into cancelled projects. In addition, many clients do not have established buying processes for energy efficiency projects. These clients may find it easier to lease an airplane or buy office furniture than to install an energy management system.

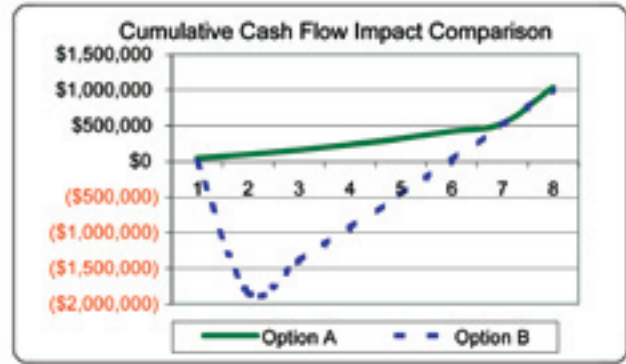
Unbeknownst until now to many leasing and finance companies, the federal government has developed tools and resources that will help overcome your clients' reluctance (and your marketing challenges) and help them evaluate and track results of their energy efficiency projects. Best of all, these tools and resources are in the public domain and can be downloaded at no charge from [www.energystar.gov](http://www.energystar.gov).

Postponing energy efficiency upgrades for as little as one year can prove to be an expensive decision for most of your customers. The EPA estimates that as much as 30% of the energy consumed by many users may be used unnecessarily or inefficiently. The money lost due to these inefficiencies in just one year frequently totals more than all the costs of financing energy upgrades over the course of the entire financing period. ENERGY STAR<sup>®</sup> tools can be used to show the math; the conclusions of which are often counterintuitive.

Consider this business logic: The energy efficiency project your clients would like to install is not in the current capital budget, and they just don't want to "pay any interest." What happens when the costs of financing the project are less than the operating budget dollars saved from reduced utility bills? Do clients change their minds when they hear you say that? The benefits of doing the project sooner rather than later are numerous, starting with improved cash flow, better facilities, using the existing capital



Project cost	2,255,000	\$
Simple payback	5	years
	4	month(s)
Interest rate	5.00	%
Financing term	7	years
Year(s) postponed	1	years
Annual increase in energy costs	2.50	%
Project cost increase due to delay	1.00	%



<b>Net Present Value of Option A</b>	<b>\$767,651</b>	<b>Net Present Value of Option B</b>	<b>\$510,161</b>
For purposes of this calculation, all cash flows are being discounted at the interest rate indicated in cell G7 - financing paid monthly in arrears.		<b>Fast track financing generates</b>	<b>1.50 times more cash than waiting!</b>

Year	Option A (Fast Track Financing)				Option B (Waiting for Cash)			
	Savings	Cost	Annual Cash Flow	Cumulative Cash Flow	Savings	Cost	Annual Cash Flow	Cumulative Cash Flow
0	\$425,000	(\$382,464)	\$42,536	\$42,536	\$0	\$0	\$0	\$0
1	\$435,625	(\$382,464)	\$53,161	\$95,698	\$435,625	(\$2,277,550)	(\$1,841,925)	(\$1,841,925)
2	\$446,516	(\$382,464)	\$64,052	\$159,750	\$446,516	\$0	\$446,516	(\$1,395,409)
3	\$457,679	(\$382,464)	\$75,215	\$234,965	\$457,679	\$0	\$457,679	(\$937,731)
4	\$469,120	(\$382,464)	\$86,657	\$321,622	\$469,120	\$0	\$469,120	(\$488,610)
5	\$480,848	(\$382,464)	\$98,385	\$420,007	\$480,848	\$0	\$480,848	-\$12,238
6	\$492,870	(\$382,464)	\$110,406	\$530,413	\$492,870	\$0	\$492,870	\$505,108
7	\$505,191	\$0	\$505,191	\$1,035,604	\$505,191	\$0	\$505,191	\$1,010,299

budget for other projects, helping make their facilities “green” and more. Using this logic, financing an energy efficiency project is a good business decision. Delaying the installation is, however, a conscious decision to continue paying the utility companies for the energy wasted rather than investing these dollars in improving the facilities.

Energy efficiency projects are unlike most other capital projects. With properly structured financing, your clients may be able to implement energy efficiency projects without exceeding their existing operating or capital budgets. Thousands of companies that participate in ENERGY STAR know from experience that today’s energy efficiency technologies and practices have saved them operating budget dollars. And implementing energy efficiency projects will have a positive impact on your clients’ overall financial performance as well as the environment. So why wait?

### A Word on Energy Efficiency & Green Buildings

Energy efficiency and indoor air quality are critical components of any green building project, and they are required by the U.S. Green Building Council (USGBC) to obtain Leadership in Energy and Environmental Design (LEED) certification. For example, the LEED for Existing Buildings rating system requires that certain prerequisites be met before a certification at any level can be achieved. An ENERGY STAR rating of at least 60 is one of those prerequisites (see the Financing Tools and Resources from ENERGY STAR section below for more information on EPA’s energy performance rating system found in Portfolio Manager). USGBC also requires that at least two points be earned under the Optimize Energy Efficiency Performance credit, which essentially requires an even higher ENERGY STAR rating.

Energy efficiency related building improvements are synergistic with other categories in the LEED process (sustainable sites, water efficiency, energy and atmosphere, materials and resources, and indoor environmental quality). For instance, points can be earned for controllability of systems, day lighting, water usage, etc.

Using the operating budget savings realized from implementing energy efficiency projects is a good way to offset the costs of making your clients’ buildings greener and obtaining LEED certification.

### EDITOR’S NOTE:

The figure above is provided for illustrative purposes. While the 5% interest rate is reflective of a tax exempt financing, the author suggests that readers in the private sector refer to the CFO calculator found at [www.energystar.gov](http://www.energystar.gov).

### Financing Tools & Resources From ENERGY STAR

Catalyst Financial Group, Inc. has given hundreds of presentations and training sessions for private- and public-sector organizations struggling with the challenge of making their buildings more energy efficient. One of the most common statements from participants (especially those in the public sector) is, “We don’t have the money needed to do the facility upgrades; in fact, we don’t even have enough money to pay for the energy audits needed to determine the size of the savings opportunity.”

This perception is simply not true because the needed funds are currently sitting in their utility operating budgets and being doled out every month to the local utilities. Organizations merely require a way to capture and redirect these “wasted energy” funds to pay for the energy efficiency projects, which will in turn create real savings. For some readers, this may seem to be “circular logic,” or what may be called a “Catch 22.”

Fortunately, ENERGY STAR has created a number of tools and resources that, when properly used, will allow you to “break the circle” and find a path toward the timely implementation of energy efficiency projects. These include tools that tie directly into financing such projects, such as Portfolio Manager, Target Finder, the Financial Value Calculator, the Building Upgrade Value Calculator and the Cash Flow Opportunity Calculator. All of these resources are in the public domain and available at the ENERGY STAR website.

### Portfolio Manager

Peter Drucker’s famous maxim is, “If you don’t measure it, you can’t manage it.” If your client’s organization wants to use future energy savings to pay for implementing energy efficiency projects now, they should start by establishing the baseline of current energy usage in each building.

ENERGY STAR's Portfolio Manager can help them do that. It is an interactive energy management tool that allows users to track and assess energy and water consumption across their entire portfolio of buildings in a secure online environment. Portfolio Manager can help your clients identify underperforming buildings, set investment priorities, verify the effectiveness of efficiency improvements and receive EPA recognition for superior energy performance.

From a lender's perspective, a facility with a low EPA energy performance rating is more likely to obtain larger energy savings (having more room for improvement) than a facility with a high rating. This is an important factor when the energy savings are considered a primary "source of repayment" to finance energy upgrades. Portfolio Manager is also an important tracking mechanism that helps insure that the facilities are being properly maintained and the energy savings are continuing to accrue. As lenders perform due diligence on energy efficiency projects, they will become more aware of the value of Portfolio Manager.

### Cash Flow Opportunity Calculator

The Cash Flow Opportunity Calculator (CFO Calculator), developed by the Catalyst Financial Group, Inc. and The Cadmus Group, Inc. for the EPA, has proven to be a very effective tool for energy managers, CFOs and senior management. This set of spreadsheets helps create a sense of urgency about implementing energy efficiency projects by quantifying the costs of delaying the project implementation. It was developed to help decision makers address three critical questions about energy efficiency investments:

1. How much of the new energy efficiency project can be paid for using the anticipated savings?
2. Should the project be financed now, or is it better to wait and use cash from a future budget?
3. Is money being lost by waiting for a lower interest rate?

Using graphs and tables, the CFO Calculator is written so that managers, who are not financial specialists, can use it to make informed decisions, yet it is sophisticated enough to satisfy financial decision makers. This tool works well for projects in both the public and private sectors.

The first step in the evaluation process is to estimate the amount of savings that can be captured from the existing utility budget. The working assumption is that these savings will be used to cover the financing costs and that the savings will recur month in and month out. The savings amount is entered into a "reverse financial calculator," which then asks for an estimated borrowing interest rate, financing term and the percentage of the savings users prefer to apply to pay back the cost of the energy improvements. The calculator is designed to estimate the amount of project improvements that could be purchased by redirecting the energy net savings to pay for the upgrades.

Most organizations are surprised to learn how much new equipment and related energy services are "buried" in their utility bills, all of which could be installed within their existing operating budget without tapping into their limited capital budget. "Related energy services" often include the initial energy audits that many organizations feel they cannot afford, but are necessary to quantify the savings opportunity. When future energy savings are the main source of the project's repayment, the CFO Calculator becomes an effective sensitivity analysis tool that takes into account the impact of lower interest rates, longer financing terms and utilization of savings when structuring the project's financing.

A while back, we made the "see how much money you are leaving on the table" argument to the chief financial officer of a large city in the Northeast on behalf of the local electric utility. The CFO responded

that the city was fiscally conservative, and officials believed that waiting until funds were available in a future operating budget (thereby avoiding borrowing and paying interest) was in the best interests of the city. We used the CFO Calculator to map the cash-flow consequences of two decision points (financing now or waiting until a future budget) to demonstrate to the city's CFO and town council that *financing now* was a better financial decision than waiting for cash.

In most instances, the lost energy savings incurred by waiting for one year are greater than the net present value of all the interest payments of most financing options — making "do it now" the better financial decision. This is counterintuitive and surprises most decision makers. Today, this city supports the expeditious implementation of energy efficiency projects (See *Figure 1*).

Another common argument for delay is waiting for a lower interest rate offering rather than accepting your financing proposal, which is available immediately. This situation may arise when organizations are waiting for funds from a future bond issue or for a low-cost specialty fund to replenish itself. The CFO Calculator allows you and your clients to compare two different interest rate offerings, and it computes how long they can wait for the lower interest rate before the lower rate costs more dollars. It does this by including the forfeited energy savings into the decision-making process; truly, another "cost of delay."

### Conclusion

In the end, a decision *not* to install more efficient energy equipment and implement related energy saving measures is a decision to continue paying higher utility bills. Using the captured energy savings to pay for financing the improvements is recommended, essentially making them "self-liquidating" obligations.

Because energy efficiency projects can literally pay for themselves, the bottom line is that financing energy improvements is simply a good business decision. **m**

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**Neil Zabler**, president of Catalyst Financial Group, Inc., has been designing energy finance programs and arranging project-specific financing for demand side management (DSM) and renewable energy projects since 1985. Zabler's clients include U.S. EPA ENERGY STAR, the Inter-American Development Bank, more than 20 electric and gas utilities (including Con Edison Co. of NY, PG&E, TVA), engineering companies and vendors, and hundreds of individual companies and organizations. Zabler is fluent in Spanish and helped design financing programs for energy projects in Mexico, Peru and El Salvador.

He speaks regularly for organizations including the Government Finance Officers Association, the Association of School Business Officials, National Association of State Energy Officers, Association of Government Leasing & Finance and the Council of Great City Schools, and is on the task force of The American College & University Presidents Climate Commitment/Clinton Climate Initiative program. He has been published widely in finance and energy periodicals and has just written a chapter appearing in a new book called *Handbook of Financing Energy Projects*. He has a B.A. in Finance from Long Island University (LIU), and has completed post-graduate studies in marketing at the Arthur T. Roth Graduate School at LIU. He can be reached at [nzabler@catalyst-financial.com](mailto:nzabler@catalyst-financial.com).

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### ENDNOTES:

- 1 "The Old Future Is Gone," Renee Kirk, Forbes Magazine, January 4, 2008, [www.forbes.com](http://www.forbes.com)
- 2 IBID
- 3 <http://www.epa.gov/stateply/>