In an era of tight budgets and limited resources, dealing with an aging infrastructure is a challenge every school faces. For many deferring maintenance becomes the knee-jerk response. But, is there a better way?

Prioritizing energy upgrades is a good place to start, since those projects often can pay for themselves. Updating to more energy-efficient equipment often produces savings that can be used to fund your upgrades, thus creating a cash-flow neutral or shared savings scenario. Energy upgrades help you:

- Manage increasing and unpredictable energy costs
- Implement a sustainability plan
- Reduce your school’s carbon footprint
- Reduce the temptation to defer critical energy projects
- Reduce your risk of infrastructure dependency

Placing Priority on Energy Upgrades

Recently, a prestigious New York university went through this process as they evaluated their campus priorities. They had previously deferred the implementation of a co-generation central heating plant that could reduce their kilowatt usage by 41%. As they reviewed their deferred projects, it became clear that this upgrade would lower their utility costs significantly, generating an immediate ROI. Moreover, implementing the project now would eliminate the additional “cost of waiting” that would continue to accrue if they kept on deferring the project. They therefore made the decision to move forward with the project.

But how would they fund it? An initial investment was required to install the equipment. And because the plant construction would take two years to complete, the university would not see any cost savings until then. In the meantime, the university would need help from an outside partner.

Evaluating Funding Options

The school weighed several alternatives, which also included the use of Bonds or a Tax Exempt Leasing Program in New York (TELP), ultimately narrowing it down to two options. Both would allow them to use the future energy savings of the project to fund the construction and create the cash-flow neutral solution they were looking for.
Evaluating Funding Options

The first option was a standard Energy Performance Contract (EPC). With this option, an Energy Savings Company (ESCO) assumes the risk if the project savings are less than anticipated - but the ESCO also receives 100% of any savings as payment each month during the term of the agreement. The second option was an operating lease agreement from First American Education Finance, that they had become aware of through their state association.

Here is how the analysis of the two options compared, side by side:

**Summary of Results**

Although the traditional EPC initially appealed to the university, the lengthy set-up process and added costs were major concerns. In the end, the transparency and no-fee approach of the lease agreement, along with the shared savings, shorter payment term and lower interest rate led the school to select First American’s finance solution. As a result, the school is now improving its sustainability while immediately reducing costs to support additional campus initiatives.

To learn more, visit: www.FAEducationFinance.com/Energy