**FINANCING OVERVIEW**

**Energy Savings Performance Contracts**

Energy savings projects are no different than other capital projects taken on by Kentucky’s Cities and Counties. The current low interest rate environment has made these projects more affordable and a viable option for replacing and updating outdated equipment. Capital remains cheap and accessible through traditional and newer borrowing methods. Some of the financing vehicles commonly used include:

* Bonds
* Bond Pools
* Bank Loans and Leases
* USDA Financing

The two most common security pledges for the debt are:

***General Obligation –*** *Backed by the taxing power of the municipality*

* Provides lowest cost of capital
* Easiest access to capital
* Debt would go against your debt capacity
	+ Capacity is calculated as a percentage of taxable property (KRS 66.041)
		- Counties – 2% of Assessed Valuations
		- Cities with populations under 3,000 – 3% Assessed Valuations
		- Cities with populations between 3,000 - 15,000 – 5% Assessed Valuations
		- Cities with populations Over 15,000 – 10% Assessed Valuations

***Lease Appropriated / Revenue -*** *Guaranteed energy savings are pledged as a source of payment on the debt*

* No direct tax obligation
* Excluded from debt capacity calculation
* Higher cost of capital compared to general obligation

Other Considerations

* Engage Early – Have a financing team work directly with your municipality and the ESCo.
* Bundle with larger projects – economies of scale reduces borrowing costs
* Considering capital avoidance costs and structuring financing around them
* Utilize bridge loans to avoid timing problems

