

Overview

Internal financing refers to an organization's use of its existing financial resources to pay for carbon reduction projects. This is often the simplest and most direct method for funding. This fact sheet summarizes 6 common internal financing modes: Capital Expenditure/Operating Outlay, Self-Funded Energy Performance Contracts (ESPC), Carbon Fee Funds, Green Bonds, Green Revolving Funds, and Capital Investment Funds.

1. Capital Expenditure/Operating Outlay

The simplest and most direct way to fund energy projects is by using existing capital or operating budget funds. Taking advantage of available capital can be used to invest in carbon reduction projects and avoid paying any interest associated with a project loan. Additionally, this method can expedite approval processes, as it can become part of existing capital/operating budget processes.

- ▶ **Advantages:** Simple strategy using existing budgeting processes, no extensive setup or management costs.
- ▶ **Disadvantages:** Does not guarantee funding availability for future projects, existing budgeting processes may move slowly and need streamlining.
- ▶ **Example:** [Kohl's Strategic Approach to Energy Finance](#) of an expedited approval process

KEY TAKEAWAYS

Internal financing for carbon reduction projects may be a good fit if your organization:

- ▶ Has funds available or can raise funds for carbon reduction projects.
- ▶ Is comfortable spending its own funds on carbon reduction projects rather than core business operations.
- ▶ Cannot seek external funds due to debt limits or other restrictions on financing.

2. Self-Funded Energy Performance Contract

In an energy savings performance contract (ESPC) the organization partners with an energy service company (ESCO) or contractor to scope, develop, and implement a set of efficiency improvements across one or more facilities. For the internal-funded model, the organization pays out of pocket for the installation of equipment and the ESCO then enters an ESPC (sometimes called an energy performance contract, or EPC) with the customer in which the ESCO agrees to implement and manage the upgrades. In exchange, the customer makes regular service payments to the ESCO.

- ▶ **Advantages:** Performance guarantee, outsourced project management, enhanced reliability of operations, standardized processes, scalable, eliminates need for third-party investor/lender.
- ▶ **Disadvantages:** Long close time, building ownership constraints, size limitations, high-cost relative to in-house implementation.
- ▶ **Example:** [Douglas County School District: ESPC implementation](#)

3. Carbon Fee Fund

Carbon fee funds involve a setting a carbon price per ton of carbon and charging internal business units a fee for their emissions. This fee creates a dedicated revenue stream to fund the organization's carbon reduction efforts.

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- ▶ **Advantages:** Can use revenues to feed a fund for building upgrades, creates a structural incentive toward more efficient lower-emissions activities, hedges against risk of external carbon price regulation at the city, state, regional, or national level.
 - ▶ **Disadvantages:** Creates additional accounting and management complexity, leadership may be hesitant to impose a carbon price, best practices are still emerging.
 - ▶ **Example:** Several private sector companies such as Microsoft and Amazon have established Carbon Fee Funds.

4. Green Bonds

[Green bonds](#) are a type of fixed-income financial vehicle designed to raise money for carbon reduction projects. To issue a green bond, an organization must establish a framework that details acceptable uses of proceeds and how the impact of the green bond capital will be measured.

- ▶ **Advantages:** Quantity, lower cost of capital compared to similar offerings, ease of qualifying.
- ▶ **Disadvantages:** Issuances are typically >\$5M, must meet certain energy reduction thresholds.
- ▶ **Example:** [Hawaii Green Infrastructure Authority's Green Energy Market Securitization Bond](#)

5. Green Revolving Fund (GRF)

A [green revolving fund](#), also known as a revolving loan fund, is an internal capital pool that is dedicated to funding energy efficiency, renewable energy, and/or sustainability projects that generate cost savings. A portion of those savings are then used to replenish the fund, allowing for reinvestment in future projects of similar value. This establishes an ongoing funding vehicle that helps drive energy efficiency and sustainability over time, while generating cost savings and ensuring available capital.

- ▶ **Advantages:** Self-replenishing, creates a long-term mechanism for improving energy performance, prioritizes projects with high return on investment, engages facility managers and other stakeholders, demonstrates ongoing commitment to energy performance.
- ▶ **Disadvantages:** Leadership may be hesitant to “lock up” capital in a dedicated fund, repaying the fund from project savings means fewer savings realized in the operating budget in the short term.
- ▶ **Example:** [Cleveland Clinic: Establishing Green Revolving Funds in Healthcare](#)

6. Capital Investment Fund

A capital investment fund is a special budget dedicated to financing carbon reduction projects across an organization's portfolio. This approach allows individual building managers to identify carbon reduction projects in their facilities as they apply for funding. Capital investment funds are designed to achieve organization-wide energy and carbon reductions goals while also delivering a net profit.

- ▶ **Advantages:** Engages facility managers and other stakeholders, demonstrates ongoing commitment to energy performance, provides dedicated pool of money that can be efficiently managed/tracked.
- ▶ **Disadvantages:** Must be replenished frequently since savings are not recouped into the fund, obtaining buy-in for recurring capital allocation may be difficult.
- ▶ **Example:** [adidas Group's greenENERGY Fund](#)