

VERDIGRE SHARED ENERGY SAVINGS PROGRAM

APPENDIX A

THE VERDIGRE SHARED ENERGY SAVINGS PROGRAM
AND BUSINESS PLAN

A Program for Financing
Commercial Energy Efficiency Improvements
in the
Village of Verdigre, Nebraska

THE VERDIGRE SHARED ENERGY SAVINGS PROGRAM
AND BUSINESS PLAN

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I - 1 PROGRAM DESCRIPTION

The Verdigre Shared Energy Savings Program is a cooperative effort of the Village of Verdigre, the Department of Economic Development (DED), the Nebraska Energy Office (NEO) and area financial institutions. It is anchored by a \$257,000 Community Development Block Grant from DED which will be used to underwrite the costs of energy efficiency improvements in the Village.

The purpose of the Verdigre Shared Energy Savings Program is two-fold:

*** Provide financing to those businesses in Verdigre that wish to make energy efficiency improvements in their buildings and operations as a means to improve economic productivity.

*** Obtain sufficient information in this effort to determine whether the "Verdigre Plan" can be replicated in other Nebraska communities.

The program will operate within a framework that allows the Village to continue to finance additional improvements -- consistent with CDBG guidelines -- as new funds become available and once the targeted improvements specified in section II-6 of this business plan have been completed. The immediate sources of new funds include capital that will be leveraged from area financial institutions and "program income" that is generated by the repayment of up to 40% of the initial installation costs. This repayment will be made possible through savings in the annual energy bills enjoyed by local businesses.

I - 2 PROGRAM BACKGROUND

The Verdigre Shared Energy Savings Program is the direct result of a cooperative effort undertaken by the Village, DED and NEO to identify specific strategies that would help the community meet head-on a growing economic crisis and, at the same time, that would positively shape its economic future.

In December, 1984, the Village of Verdigre was confronted with the closing of the Bank of Verdigre. That event, coupled with falling land values and commodity prices, had a devastating effect upon the Village economy. The bank insolvency prompted a series of Federal Deposit Insurance Corporation (FDIC) farm foreclosure actions as the FDIC attempted to protect bank depositors. The loss of farm income put financial pressure on local businesses and households who already faced reductions in incomes.

With assistance of the NEO, DED and Charles Hill of Peschio & Company, the Village convened a "Strategic Choices" town meeting on

April 2, 1985. At that meeting some 180 people (38% of the Village population) worked to identify problems and needs of Verdigre and brainstorm on possible solutions for them. Everyone then voted on the highest priorities for action. One of the three priorities which emerged from this meeting was to support local businesses.

With the recognition that high energy costs were a problem for every business in town, and that money spent on energy created an economic drain since most of the payments were exported from the community, a business taskforce decided to apply for CDBG funds to finance the installation of energy efficiency improvements in the Verdigre businesses. The application was approved by DED in November, 1985. The Verdigre Shared Energy Savings Program proceeds from that application and its subsequent approval by DED.

I - 3 THE PROGRAM MANUAL

This program manual is a business plan that describes how the Verdigre Shared Energy Savings Program will operate, the responsibilities of the Program Administrator, the criteria for determining the level of financial support to local businesses.

I - 4 CONFLICT OF INTEREST

No employee, officer or boardmember of the Village of Verdigre shall participate in the day-to-day administration of this program. Should any such individual desire to participate in this program, he or she shall be treated no differently in the determination of eligible applicants than any other individual in Verdigre. The application for funding by any official or agent of the village shall include a statement of disclosure which outlines the interest the applicant may have in the operation of this program.

I - 5 STANDARDS OF PROCUREMENT

In all procurement actions undertaken in this program the Village and the Program Administrator shall adhere to the procurement standards outlined in the Office of Management and Budget Circular A-102, Attachment D.

I - 6 GRIEVANCE PROCEDURE

Should any individual or applicant believe he or she has been treated unfairly in the determination of applicant eligibility, eligible energy efficiency improvements or funding level according

to either the guidelines established for this program or for the operation of the Nebraska CDBG program, he or she may file a written complaint with the Program Administrator setting forth such concerns. Within 15 days of receiving a complaint, the Administrator shall issue a written statement on the matter which states the Administrator's conclusion and reasons for reaching such a decision with regard to the complaint. Should the complainant believe his or her concerns have not been adequately addressed, the issue may be brought before the Village Board for review at the next regularly scheduled board meeting. The board's ruling on the matter, made within one month of a written request for review by the complainant, shall be final.

I - 7 PROGRAM AMENDMENT PROCEDURE

Should the Program Administrator or the Village Board of Trustees believe an amendment to this business and program plan is necessary, such amendment shall be forwarded to DED after formal review and approval by the Board of Trustees. All amendments shall be consistent with the original program intent and with the state's CDBG guidelines. The amendments will be considered final upon written approval by DED.

II - 1 FUNDING

The level of funding services expected to be available to the Village businesses (and other entities consistent with this plan and CDBG guidelines) result from three primary sources:

A. CDBG Funds	
Administration allowance	\$ 34,000
Grant/loan investment fund	\$185,000
Secondary investment pool	\$ 38,000
B. Secondary Investment Pool	
* Area financial institutions	\$ 62,000
C. Program Income	
40% improvement repayments	\$ 74,000*

Total Program Funds	\$393,000

* These figures are estimates based upon the expected level of program success.

Clearly the program anchor for Verdigre is the CDBG grant awarded by the Department of Economic Development. With assistance from the Nebraska Energy Office, the business plan will encourage the leveraging of as much as \$62,000 in private funds from the area financial institutions. It is anticipated that these combined funds (i.e., \$319,000) will be expended in the period from March 1, 1986 through August 1, 1987.

A final source of funds that will be available under the design of this business plan will be "program income". This is money generated by the 40% repayment of the energy efficiency improvement costs made by participating businesses. Based upon estimates made by the NEO, the 40% repayment will be possible as a result of savings in the annual energy bills of participating businesses. This program income, as described later, can be considered a source of new funds available for use by the Village. While they are not subject to the same timeline and program constraints as the initial CDBG monies, they must be spent in a similar manner as the original grant and within a reasonable timeframe.

As noted in the previous table, this business plan is designed to generate a total of \$393,000 for use by Verdigre to make needed energy efficiency and energy-related improvements -- an amount that exceeds the original grant by 50%. In addition, the NEO is providing an estimated \$40,000 of staff-time and other in-kind support to the Village both to ensure the success of the program and to determine whether this program design can be replicated in other Nebraska communities. To this extent, then, the "Verdigre Plan" is a demonstration of whether this performed-based financing can become another community economic development tool for Nebraska.

II - 2 THE SHARED SAVINGS CONCEPT

Energy efficiency improvements provide a major boost to local economies in two ways: first, they provide work for local contractors to make the needed improvements; and second, the energy savings generate a source of new income for the community since more money will be available to spend as a result of the new efficiencies. Moreover, a larger part of this income is retained within the local economy rather than exported to other states or countries to pay for conventional energy supplies. Unfortunately, most communities lack the financial resources to finance all the beneficial efficiency projects they might identify.

This program design, built upon the "shared savings" concept, is a tool to finance energy efficiency improvements without requiring homeowners or businesses to provide any up-front capital. The investment is paid for with a portion of the energy savings that occur through efficiency improvements made in a building; another part of the savings remains with the resident or business.

Under a shared savings arrangement, funds are allocated by either a private investor or a public entity to install a previously agreed-upon series of energy efficiency measures. In return for this financial support the building occupant/owner pays a pre-negotiated share of the anticipated energy savings until the costs of the improvements are fully recovered, usually three to eight years. These costs include such things as equipment and labor costs, maintenance costs incurred during the contract period, service fees (if any) and general overhead expenses of the funding body.

Shared savings contracts have been used primarily on the East and West Coasts to finance improvements in office buildings, factories, hospitals, manufacturing facilities and large apartment complexes. For the most part, however, these arrangements involve projects which exceed \$100,000. The program design discussed in this business plan is an effort to make the shared savings concept available to businesses in Verdigre which typically may need less than \$10,000 in efficiency improvements. Because of the uncertainty of whether this scaled-down version of shared savings can work, the Verdigre Plan calls for a 60-40 grant/loan arrangement to finance the installation of energy improvements.

Within the limits of available funds and program guidelines, participating Verdigre businesses will receive a line of a maximum line of credit from the Village sufficient to install any efficiency improvements which will pay for themselves within a five-year period. Only 40% of the total cost will be repaid through the shared savings arrangement with the balance funded through the CDBG monies. (As specified in section II-4, any business may extend its line of credit by taking advantage of what is termed the "secondary investment pool".)

In return for the 60% grant from the Village, the businesses will provide the program administrator with a minimum one-year energy bill history before and after the improvements are made. This information will be used by the NEO to determine whether the program can be operated in the future under a full shared savings contract. The business owners also will be trained in the effective use of energy efficiency improvements. The training will ensure that the projected energy savings do, in fact, materialize, increasing the economic return to the business and the likelihood that the 40% loan will be repaid in full.

II - 3 PROGRAM BUSINESS PLAN

Based upon discussions with community leaders, the following principles have been agreed to in shaping the Verdigre Shared Energy Savings business plan:

*** All businesses that apply for the energy efficiency improvement funds should receive at least some program support;

*** Approximately \$185,000 of the CDBG funds should be set aside to cover the initial investments needed by local businesses with the funds awarded as a 60% grant/40% no-interest loan;

*** Repayment of the 40% loan should be returned to the program to support future improvement efforts; and

*** Approximately \$38,000 of the CDBG money should be used to capitalize a \$100,000 secondary pool, supported by a line of credit from area financial institutions, that can be used to finance improvements which may not qualify for a grant/loan award.

With these principles in mind, the program design essentially has three aspects. The first, and the largest program segment, is the funding of initially eligible energy efficiency improvements for the local businesses. Eligibility generally is limited to those improvements in a given business which have a combined payback of five years. This and other eligibility criteria will ensure that all interested businesses have at least some access to the grant/loan funds (see section II-6 for a discussion of eligible measures). This first set of improvements will be supported by \$185,000 in CDBG funds. This set of funds is targeted for expenditure by August 1, 1987.

The creation of a secondary investment pool will be used to support improvements not eligible for the first round allocation of funds. The specific details of this segment will be worked out by the Program Administrator and the NEO once the CDBG funds are released to the Village of Verdigre. These details will be submitted to DED as a program amendment when completed. However, the program design anticipates that this pool will be a blend of CDBG no-interest funds (\$38,000) and a market-rate line of credit (as much as \$62,000) from area financial institutions. Under this blended loan arrangement, businesses interested in extending their efficiency improvements beyond those eligible in the grant/loan segment should have access to funds with less than a 10% interest rate to complete any work they believe cost-effective. The CDBG portion of this fund, effectively including the entire portion, also must be expended within the 18 month period.

The third part of the Verdigre Plan involves the use of funds made available once loans under either of the two arrangements described above are repaid. For example, assuming a zero default rate and that all of the initial funds (e.g., \$185,000) are awarded, over a period of time (anywhere from two to five years) as

much as \$74,000 -- representing 40% of the total awards made to local businesses -- will be repaid to the program. As much as \$38,000 may be available from repayment of loans in the secondary pool as well (again assuming a zero default rate). These "program incomes" do not carry the same expenditure deadline as the actual CDBG award to Verdigre. They will be available, therefore, for other similar investments within the Village beyond the 18 month period.

While a specific design to use this income must await a real-world determination of how well the first two segments operate, priorities assigned by the Village include additional commercial projects which may not have been approved previously, followed by possible residential energy efficiency improvement projects. To extend the use of all program income sources, it is the intent of the Village to preserve the concept of improvement loans where possible. This will depend, in part, on the availability of other funds to cover the administration costs of the program.

Administered by the Tri-County Council of Governments (TRI-COG), the support group designated by the Village of Verdigre, the following program steps will be implemented:

1. Upon application by a local business, TRI-COG staff will arrange for an energy audit to be completed for the building and any lights or equipment used in the business operation. An application for assistance will include a minimum one-year history of complete business energy usage and costs. The audit costs will be covered by the administrative expenses allowed in the CDBG award. Depending upon such things as convenience, expertise in a specific business operation and the preference of the business applicant, TRI-COG staff will schedule the audits on a first-come, first serve basis with either its own staff, the Nebraska Public Power District, the Siouxland Interstate Metropolitan Planning Council or any other qualified commercial auditor.
2. The audit of the business shall include a review of energy used in the heating, cooling and lighting of the building in which the business resides as well as the energy used by any equipment operated by the business. The audit will specify individual actions or improvements that can be made within the building or business operations which might reduce energy consumption without affecting the overall quality or operation of the business. Each improvement listed within the audit will be identified by sufficient information necessary to allow the improvement to be written up in a contractor's bid (e.g., area of walls or roof to be insulated), estimated energy and dollar savings that might be generated by the improvement and a preliminary cost estimate to allow TRI-COG staff to rank the improvements according to their respective payback periods. In the event that a complete, one-year history of energy consumption cannot be provided by the business, the TRI-COG staff -- with support from the NEO -- may substitute an

estimated history based upon information that can be provided and present building and/or equipment usage.

3. Based upon the results of the audits, and the eligibility criteria of this business plan, TRI-COG personnel will decide which energy efficiency improvements for each business are likely to qualify for the grant/loan award. Should an individual business determine that it would benefit from improvements not eligible under the grant/loan arrangement, on a first-come, first serve basis, the TRI-COG staff also will coordinate the filing of an application to the secondary investment pool for a low-interest loan to cover the balance of the improvement costs.

4. With the information available from the audit, and after consultation with the individual businesses, the TRI-COG staff will develop bid specifications for the improvements identified for each business. The applicants will be expected to obtain at least one (preferably three) bids on the preliminary projects. For those businesses that intend to do the work themselves, all materials and expenses, except the owner's time and labor, must be submitted as a bid. A review of the cost of labor and materials will be made to evaluate their accuracy and reasonableness.

5. Once the bids are submitted to the TRI-COG staff, a final determination as to funding eligibility will be made. The loan agreement will be signed detailing the funding source(s), specific improvements to be made, timetables for the completion of the contracted and/or self-help work, providing of at least one-year's history of the total energy usage and costs following the installation of all improvements, a repayment schedule that is based upon 50% of the projected energy (dollar) savings being dedicated toward retiring the loan(s), and an agreement to attend the energy efficiency improvement training session.

6. With the loan agreement(s) signed, the business will contract to have the work completed (unless its own staff will make the improvements) within the agreed-upon time. The business owner and appropriate employees will attend a training session sponsored by TRI-COG and the NEO to ensure a thorough understanding of the energy efficiency improvements being made and the importance of monitoring their resulting consumption patterns.

7. Upon completion of the work, TRI-COG staff will inspect the work to ensure proper installation of all measures specified in the winning bid. Once the approval is given, the final loan documentation will be processed with a joint check issued to the contractor (or supplier in the event of self-installed measures) and the business. (NOTE: In some cases the payment can be made for work completed if delay in payment will cause an extended hardship for either the contractor or the business. However, this should be part of the initial loan discussions.)

8. Monthly payments on the loan portion of the grant/loan award

will be set to approximate 50% of the projected annual energy savings for the business. Should the business also borrow funds from the secondary investment pool, loan repayments to that fund may be coordinated with the repayment of the grant/loan fund to permit a single payment to be made by the business. Payments to the grant/loan fund will be subordinated to the secondary investment pool fund, however. The date of the first payment will be negotiated at the outset of the loan discussion, but will begin no longer than 120 days from the final payment of contractor/supplier for the completed work. The business will allow the TRI-COG staff to monitor energy consumption on a quarterly basis for the first year (and yearly thereafter until the loan(s) are repaid fully) to ensure the efficient use of all installed energy improvements.

9. Should the monitoring of energy consumption levels reveal that the projected energy savings are not being realized, through no fault of the business, the grant/loan repayments may be adjusted to reflect 50% of the actual savings that occur.

10. When the loan payments are complete, the TRI-COG staff or agency servicing the loan will close out the applicant's account and complete any necessary recordkeeping.

II - 4 FINANCING OPTIONS

The Verdigre Shared Energy Savings Program will provide two financing options for energy efficiency improvements. The intent of this design is to ensure that all businesses in Verdigre have access to at least part of the grant/loan fund, and that the most cost-effective measures (as determined by a simple audit payback estimate) are implemented through this fund.

Option A: Grant/Loan Award

Subject to the availability of funds, this financing option will provide a 60%-40% grant/loan (at zero interest) award to all program participants regardless of income levels; except that the combined energy efficiency improvements proposed for any one business shall have a payback of five years or less, and that the total investment shall not exceed \$2,000 or \$1.30 per square foot of business space (whichever is greater). Participants shall be expected to repay 40% of the investment. The monthly payments shall be based upon 50% of the projected annual energy bill savings resulting from the improvements made until the loan portion of the award is retired. The CDBG fund balance dedicated to this option is \$185,000 for the 18-month period ending August 1, 1987.

Option B: Secondary Loan Pool

In the event that a program participant decides to include an energy efficiency measure which has a payback that increases the average combined payback beyond five years, or if the proposed investment level exceeds the award limit described above, the business owner may choose to apply for a supplemental loan to cover the difference in the installation costs. This secondary loan pool will be capitalized through a combination of CDBG monies at zero-interest (\$38,000) and private funds at market rates (up to \$62,000).

The resulting blend of funds should provide the business with a supplemental loan pool with a single-digit interest rate. Any supplemental loans made will be on a first-come, first-serve basis until such funds are exhausted. (NOTE: In the event that the funds for option A prove insufficient to meet the requirements of the eligible improvements, the Program Administrator may, with the approval of the Village Board and DED, re-allocate all or part of the \$38,000 to meet the demand for eligible option A measures. In the event that this pool is not fully drawn down within six-months of its creation, the Program Administrator, with approval from the Village Board and any participating financial institutions, may close-out any fund balance. Remaining funds shall be returned on a pro-rated basis to the program and to the participating institutions.)

Depending upon the rate of repayments to either of the two funding options, and the level of future program administrative costs, the loan portions of the investment pools discussed above will revolve into a third capital improvement fund. Plans for how this "program income" will be used or allocated are to be drafted once sufficient experience with the program establishes a logical framework for such decisions.

II - 5 ELIGIBLE APPLICANTS

Any for-profit, private business in Verdigre is eligible to apply for either funding option of the Verdigre Shared Energy Savings Program. To receive financial support from the program, the applicant must provide a minimum one-year history of their total energy bills before and after the energy efficiency improvements are made in their businesses. The applicant and its key employees must also participate in an energy efficiency training to ensure a maximum return on the improvements made within the business. Should the Administrator find that sufficient funds

remain after all businesses have had a chance to participate in this program, he or she may propose to the Village Board a program amendment to open the eligibility requirements of this plan.

II - 6 ELIGIBLE ENERGY EFFICIENCY IMPROVEMENTS

To determine what level of energy efficiency funds would be needed for improvements with a simple payback of less than five years (i.e., improvements that saved enough on the annual energy usage to pay for its investment cost in five years or less), the Energy Office conducted a "walk-through" audit of 10 representative businesses in Verdigre. Based upon that sampling, it was found that the average series of efficiency improvements which might typically be made in a business would cost \$4,400. The resulting energy savings would pay for the investment cost in less than three years.

Extending these figures to the estimated 42 businesses which now operate in Verdigre, a 100% participation rate would result in the use of \$185,000 of the total CDBG funds available to the community. Again assuming a 100% participation rate, efficiency improvements might save about \$58,000 per year in avoided energy costs -- an average of almost \$1,400 per business.

This information, coupled with the priorities established by the community, has resulted in the following funding criteria to determine which projects (defined as a series of improvements made within a single business) are to be supported through option A, the 60%-40% grant/loan arrangement:

A. Only those projects with a simple payback of five years or less will be eligible. For instance, if a business proposes as many as four improvements which have an average payback of five years or less, even though the fourth improvement has a six-year payback, the overall project is considered eligible under this criterion. However, should the fourth improvement increase the overall project payback beyond a five-year period, the business must seek funding for that fourth measure under finance option B.

B. Businesses may receive under finance option A up to \$2,000 each or \$1.30 per square foot of heated or cooled business space (whichever is greater) for those projects which have a simple payback of five years or less. If an individual business proposes a series of improvements which exceed this investment limit, even though the combined measures have less than a five-year payback, the difference must be financed through option B.

Any improvements which are not deemed eligible under these criteria shall be considered eligible for financial support under option B on a first-come, first-serve basis. It is expected that as much as \$100,000 in supplemental funds will be available through the first 18 months of the program operation as a result of leveraging private sector investment capital to match the \$38,000 of CDBG monies.

III - 1 PROGRAM ESTABLISHMENT

The Village of Verdigre has designated TRI-COG staffmember Pat Straight as the Program Administrator for the Village. As the Administrator, Ms. Straight will be responsible for the day-to-day operation and recordkeeping of the Verdigre Shared Energy Savings Program as outlined in the CDBG guidelines and this business plan; the supervision of TRI-COG employees who support the Program; and the filing of all required reports and requests for payment or reimbursements.

The Administrator will coordinate the flow of information among all program participants, including the Board of Trustees for the Village of Verdigre, the Verdigre businesses and Business Taskforce, area financial institutions, TRI-COG personnel, the Department of Economic Development, the Nebraska Energy Office and Charles Hill of Peschio and Company. The Administrator will also coordinate on-going efforts to promote the program within the community and will convene a meeting to inform local businesses, contractors and suppliers how they can participate in the program; to explain what actions are required if they do participate; and to provide them with the forms which must be submitted with each job or project in which they will be involved.

Finally, the Administrator will ensure that the program business plan is updated and amended as necessary. Specifically included in this responsibility are anticipated amendments with respect to using \$38,000 in CDBG funds to leverage support from area financial institutions and to utilizing the program income that will result from repayment of the loan portions of the two finance options identified in section II-4. With assistance from the NEO, the Administrator shall file these amendments no later than three months from the date of the release of funds by DED.

III - 2 REPORTING AND RECORDKEEPING

The Program Administrator will be responsible for all reporting and recordkeeping as may be required by the Verdigre Board of Trustees, the Department of Economic Development and the Nebraska Energy Office. All records will be maintained by the Administrator or the Village for a period of not less than three years after all

loans have been paid.

Program records shall include, but not be limited to the following:

1. An account of all expenditures made and funds received in the operation of this program with appropriate documentation according to generally accepted accounting principles.
2. A separate file on each approved grant or loan that includes all documents, funding agreements, energy bill histories and monitoring or inspection certifications.
3. A rejection file of applications that were denied.
4. Requests for information and other program inquiries.
5. Program data sufficient to file necessary reports with DED.
6. Energy efficiency improvement data sufficient to allow the NEO to determine whether the "Verdigre Plan" can be replicated in other communities on a 100% shared savings arrangement.
7. Any other program data as may be required from time to time.