Helping Small Businesses Save with Energy Efficiency

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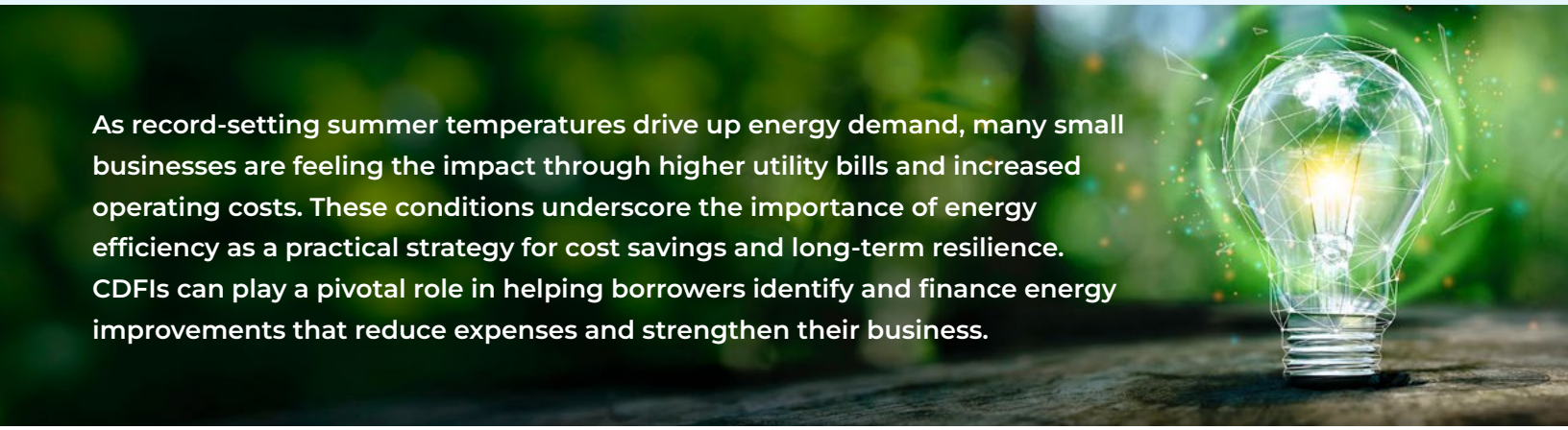

As record-setting summer temperatures drive up energy demand, many small businesses are feeling the impact through higher utility bills and increased operating costs. These conditions underscore the importance of energy efficiency as a practical strategy for cost savings and long-term resilience. CDFIs can play a pivotal role in helping borrowers identify and finance energy improvements that reduce expenses and strengthen their business.

Small Businesses Spend a Lot on Energy

Small businesses are particularly susceptible to high energy costs and are significant contributors to the total energy used in buildings. ENERGY STAR estimates that small businesses spend $60 billion per year on energy costs, and the National Renewable Energy Lab has found that small buildings across the country, most of which house small businesses, contribute 44% of the nation's total energy used in the building sector.[1]

Energy efficiency financing can offer solutions for small businesses to help improve their bottom line through energy cost savings, helping them stay competitive. CDFIs are uniquely positioned to help borrowers finance energy efficiency upgrades, lower utility bills, improve resilience, and unlock long-term savings.

By integrating energy efficiency lending into small business financing options, CDFIs can:

- Boost borrower cash flow and reduce default risk
- Support long-term business resilience to fluctuations in energy costs
- Improve local energy independence and resiliency in the event of climate disasters
- Increase rental income and the future value of a real estate asset
- Position your organization as a climate-aligned capital provider

Where to Start: Low or No-Cost Upgrades

If your CDFI is new to energy efficiency lending, you can start small: many simple energy efficiency measures are low-cost and are repaid in less than 2 years. These simple measures are proven to help borrowers save on energy costs and do not require sophisticated analyses to make the case.

[1] Ong, Sean, et al. *Land-Use Requirements for Solar Power Plants in the United States.* National Renewable Energy Laboratory,2013, https://docs.nrel.gov/docs/fy15osti/62960.pdf.

The table below provides examples of low-cost energy efficiency measures that CDFIs can encourage borrowers to pursue.

Upgrade	Estimated Annual Savings
General building repairs (broken windows or doors, adding or replacing interior shading devices like curtains and blinds)	$150–$300 in heating/cooling savings
LED lighting retrofit	$30–$70 per fixture
Programmable thermostats	10–15% in heating/cooling savings
Sealing around doors and windows to prevent air leaks	10–20% in heating/cooling savings
Timer or motion sensors	30–60% lighting cost reduction
Water heater servicing (fix insulation and leaks)	$200–$400
HVAC maintenance (clean coils, change filters and vents)	2–8% energy cost savings

Scaling Up: Financing Larger Energy Improvements

Some businesses may be ready for larger energy efficiency investments, which can result in substantial reductions in energy costs. Certain types of small businesses, such as grocery stores, laundromats and laundry services, healthcare facilities, and convenience stores, tend to be more energy-intensive due to their operating activities. A grocery store, for example, utilizes a lot of energy for refrigeration, lighting, and space heating (large space, plus doors are frequently opening and closing).

Businesses with high energy usage are ideal candidates for energy efficiency upgrades, as they have high potential for cost savings. The following list includes more substantive energy upgrades, the typical ROI on the upgrade, and an example financing strategy, which a CDFI may pursue.

Upgrade	Estimated Annual Savings	Example Financing Strategy
Insulation and building envelope upgrades	15–25%	Energy retrofit financing
High-efficiency HVAC (e.g., heat pump) **or refrigeration**	20–30%	Equipment or SBA loans
Solar PV systems	7–10 year payback (with incentives)	Term loan with tax credit bridge

Energy efficiency retrofits may have a significant upfront cost but are typically cost-effective over the long term. When assessing these upgrades, CDFIs should consider the following sources of positive and negative cash flows:

Positive cash flows:

- ⊕ Annual cost savings for electricity
- ⊕ Annual cost savings for natural gas
- ⊕ Annual cost savings for water and other resources
- ⊕ Change in operating & maintenance costs (usually positive, but can be negative in some cases)
- ⊕ Financial incentives (rebates, tax credits, etc.)

Project contractors can provide information on projected electricity, natural gas, water, and/or other resources. CDFIs can also partner with independent energy experts to verify savings.

Negative cash flows:

- ⊖ Purchase cost of equipment
- ⊖ Installation cost of the equipment
- ⊖ Cost of planning and designing the upgrades
- ⊖ Disposal cost of existing equipment (for retrofits only)
- ⊖ Replacement cost at the end of useful life
- ⊖ Cost of structural repairs prior to installation (e.g., roof repair)

To assist with financing such upgrades, CDFIs should consider loan structures that align repayment requirements with cost savings schedules. For example, CDFIs could offer the following repayment structures:

- ✓ Extended terms for deeper retrofits
- ✓ Interest-only payments during construction or installation
- ✓ Loan payments tied to projected energy savings: For example, CDFIs may consider fluctuating repayment rates in accordance with a project's seasonality and associated savings. A solar project, for example, is typically projected to generate more cost savings in the summer, when energy production is high, and lower savings in the winter, when production is low. A CDFI could consider offering a higher repayment rate in the summer versus the winter.

Particularly for larger projects, CDFIs should encourage energy audits or walkthroughs to identify the most cost-effective opportunities. Energy audits are systematic evaluations of a building's energy use, aiming to identify inefficiencies and recommend improvements. They are especially helpful if small businesses are experiencing rising energy bills, outdated infrastructure, high energy consumption, or new sustainability goals.

Energy audits can be expensive, ranging from $1,000-$5,000 for identifying immediate, low-cost improvements, and up to $15,000 for more comprehensive, detailed assessments of larger facilities. Proxies can be used in certain cases, especially when direct energy measuring is impractical. Energy modeling software, utility resources, and industry benchmarks can all be useful proxies to an energy audit, provided that a facility has standard, non-unique characteristics.

In some locations, local utilities or government programs may offer free or subsidized audits and/or rebates to make energy improvements even easier for borrowers. Make sure to check your borrower's electric utility website, your state energy office, local green bank, and your local government energy office for these programs. For example, Baltimore Gas & Electric, an electric utility in Baltimore, MD, offers **free energy assessments** to small for- and non-profit businesses. Similarly, **DTE**, an electric utility in Michigan, offers free energy assessments and rebates for small businesses. The Small Business Administration (SBA) also offers a number of resources and loan programs to help businesses improve their building efficiency and green business practices. Relevant programs include: the SBA's 7(a) program; SBA Express; SBA Microloan program; and the SBA's CDC/504 program.

Check your borrower's electric utility website, your state energy office, local green bank, and your local government energy office for these programs.

How can I encourage borrowers to make these investments?

Community lenders don't need to have technical expertise to get started with energy efficiency financing. There are basic steps CDFIs can take to help small businesses realize the cost savings of energy upgrades, shown below:

Educate borrowers on basic energy efficiency and potential cost savings through simple improvements.

Build referral partnerships with contractors, utilities, and local energy programs.

Offer green loan products or adapt existing small business lending to include energy efficiency upgrades.

Use savings estimates to demonstrate repayment ability through clean energy upgrades.

Reducing operating costs is one of the most impactful ways to boost a small business's bottom line. From simple, low-barrier upgrades to large-scale efficiency improvements and retrofits, CDFIs have the tools to help small businesses lower their operating costs and improve their energy resilience.

Tools & Resources for Lenders

The list below includes a range of resources that can help CDFIs with clean energy lending efforts:

US Small Business Administration — offers loan guarantee programs that lenders can use to finance energy-efficient improvements or systems for small businesses.

- SBA 7(a) Loan Program
- SBA Express
- SBA Microloan Program
- SBA CDC/504 Program

National Renewable Energy Laboratory (NREL) Energy Savings Tools — user-friendly guides and tools that help small businesses identify energy-saving opportunities.

- Small Business Energy Guide

Energy STAR for Small Business — a set of resources and tools that help with energy benchmarking and savings calculators for small businesses.

- Energy Efficiency Toolkit for Small Businesses
- Technical Resources for Small Businesses
- Building Energy Benchmarking
- Energy STAR Rebate Finder
- Federal Tax Credits for Energy Efficiency
- Energy Audits for Small Businesses

DSIRE Incentives Database — a comprehensive, searchable database of federal, state, and local incentives for energy efficiency and renewable energy.

- Find State & Federal Rebates

Rural Energy for America Program (REAP) Grants — a USDA program offering grants and loan guarantees for renewable energy systems and energy efficiency improvements in rural areas.

- USDA REAP Program

EPA Resources for Small Businesses — the EPA provides sector-specific recommendations and tools for small businesses that can be useful in identifying cost-saving opportunities.

ASHRAE Energy Design Guides — prescriptive strategies that can help small businesses in commercial buildings achieve energy savings; guides can also be helpful for validating energy cost models.

By incorporating energy efficiency into lending strategies, CDFIs can deliver meaningful value to small business borrowers, helping them cut costs, build resilience, and thrive in a changing economic and environmental landscape. Whether through simple fixes or larger capital improvements, energy upgrades represent a smart, cost-saving opportunity for both lenders and borrowers. With the right tools, partnerships, and financing structures, community lenders can play a pivotal role in advancing energy efficiency and strengthening the small business sector.