



## Energy Efficiency in Schools: State Incentive Options

*By Christie Rewey*

*American schools spend more on energy than on books and computers combined.*

American schools spend more than \$6 billion annually on energy, which is more than is spent on books and computers combined. A spike in energy prices coupled with inefficient energy use can wreak havoc with a school district's budget. Many states have enacted incentives to help school districts reduce their exposure to volatile energy prices and save money by using energy more efficiently. Some incentives are available to school districts as well as other sectors. Primarily, assistance for energy efficiency in schools takes the form of grants or loans.

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**Grants and Loans.** Higher up-front costs have often prevented school districts from purchasing energy-efficient products and design services. In an attempt to overcome this price barrier, several legislatures have established funds to assist schools. The funds are awarded in the form of a grant or loan. Grants are one-time funding packages, while loans must be repaid, with interest, over a certain time. Many states offer these loans at low interest rates between 3 percent and 5 percent. Often, a school district can repay its loan using the funds it would have otherwise spent on energy. At least eight states have established a grant or loan program for equipment for improvements such as more-efficient lighting, boilers, weatherization, heating/ventilating/air conditioning systems, and control systems to manage energy use.

*California provides energy audits and technical service to schools for retrofits and new construction.*

### State Actions

**California.** California's "Bright Schools" program provides energy audits and technical service to schools for both retrofits and new construction assistance. Companion to the Bright Schools program is the Energy Efficiency Financing program, providing low-interest (approximately 3 percent) revolving loans. Generally, public schools borrow between \$2 million and \$3 million per year using this program. In 2001, however, the figure was closer to \$8 million due to a 150 percent increase in the price of electricity. Two grants of \$250,000 each were awarded in September 2001 to build two schools that will be 20 percent more efficient than required by today's standards.

**Indiana.** The Energy Policy Department of the Indiana Department of Commerce administers the Public Facility Energy Efficiency Program loan program for energy upgrades at public schools, libraries and political subdivisions. The 0 percent loans, of up to \$100,000, can be used to fund up to 100 percent of the actual cost of energy-efficient improvements or technical energy audits. Since its development in 1999, at least six schools have received these loans totaling about \$600,000. Indiana schools also have access to the state's Alternative Power & Energy Grant Program. No schools, however, had taken part in the program as of early 2002.

**Missouri.** As of FY 2002, 205 Missouri public schools had received more than \$23 million in energy costs using the loan program for public facilities. Loans are repaid with energy savings. The Missouri Department of Natural Resources reports that demand for the loans increased exponentially in 1999

and 2000, when \$14 million was loaned to schools and local governments. The prior average loaned was \$1 million to \$2 million annually.

**Oregon.** Oregon's Energy Loan Program was established in 1980. The program offers low-interest loans to promote energy conservation, renewable energy, alternative fuels, and recycled products. In addition to school districts, these loans are available to individuals, businesses, nonprofit organizations, tribes, special districts, and local and state governments. General obligation bonds provide funds for the loans. Between 1985 and September 2001, the Oregon Energy Office states that \$18 million has been loaned to support energy-efficient measures in 90 school districts and community colleges.

**Iowa.** Iowa created the Iowa Energy Bank in 1986. This energy-management program provided an energy audit for every school in the state. Also, the program provides low-interest financing for energy-efficiency improvements in school buildings (along with private colleges, private schools and local governments). Thus far, projected savings for schools are \$12 million per year.

**South Carolina.** Two loans, totalling more than \$620,000 have been made to school districts through the ConserFund program, administered by the South Carolina Energy Office. The maximum loan amount is \$500,000, with a limit of two loans at a time for any borrower.

**Texas.** The Texas LoanSTAR Program provides energy-efficiency loans to several sectors, including school districts. As of December 2001, the program (administered by the State Energy Conservation Office) had awarded 54 loans to school districts, totaling some \$34 million. Efficiency measures supported by the loans have saved school districts \$5 million.

**Massachusetts.** The Energy Conservation Improvement Program provides grants to public schools to fund capital improvements that reduce energy consumption and help cut energy costs. Grants fund eligible energy conservation projects identified through an energy audit provided by the Division of Energy Resources. Based on the results of the technical assistance, the division awards grants for cost-effective energy improvements from state bond funding.

System benefit funds and performance contracting are two other state policy options for energy efficiency in schools.

**System Benefit Funds.** In some states, schools can also receive energy-efficiency funding through system benefit funds. These funds are fed by small charges applied to every electric bill in the state, with the revenue used to support renewable energy and energy efficiency programs. Twenty states have established system benefit funds to support energy efficiency. Some included them in electric industry restructuring legislation. Others, like Wisconsin and Vermont, established the funds without restructuring.

**Performance Contracting.** This is a financing method offered by an energy service company. The characteristics of performance contracting are: 1) the building owner makes no initial investment; 2) energy and operating savings are guaranteed by the contractor to be at least enough to fund the project, including finance charges; and 3) technical and financial risks are assumed by the contractor, not by the building owner. At least 30 states have established this program. In most cases, the financing option is available to schools.

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*In some states, schools can also receive energy-efficiency funding through system benefit funds.*

### **Contacts for More Information**

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