The Role of Lease-Financing within Energy Projects:

Module C: Energy Intensive Systems and Equipment

Certain types of equipment and machinery such as heating, ventilation, and air conditioning systems, boilers, and even LED traffic signals create structural challenges from a lease-financing standpoint due to the manner in which they are installed: firmly attached to real property, rendered largely immobile, and part of a larger, integrated system consisting of a variety of secondary assets ranging from ducts and fans, to electronic components and switch boxes.

Additionally, there are typically sizeable capital outlays for items which are collectively described as "soft costs" such as wiring, installation, labor, etc. – items which can be included in a project's financing, but which hold no recoverable value in the event a lease contract is terminated.

In order for a Lessor to preserve its' security interest in the equipment and machinery being financed, a fundamental principle of equipment leasing is for all leased assets to be held as personal property, separate and apart from real property, for as long as the lease contract is outstanding. Moreover, in order to maintain adequate value in collateral assets and to prevent a funding imbalance between hard assets and soft costs, Lessors usually limit the amounts allocated for soft costs including expenditures for permits, designs, and any applicable sales tax to equal no more than 25 percent of the total amount financed. These provisions, coupled with the proven durability of equipment with the aforementioned characteristics enable lease-financing to be provided for periods ranging from 60 months to 12 years.

The lease-financing product most commonly utilized is the capital lease, either the lease-purchase agreement or the finance lease. The periodic payment arrangement is usually structured as a straight line amortization of the asset's purchase price over a given period, but can also be structured in a manner that accelerates the build up of equity in the project during periods when the project can support an elevated periodic payment amount.

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