Evergreen Funding and Financing Sources for Small- to Medium-Sized Commercial Building Energy Upgrades

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Energy Upgrades in Small- to Medium-Sized Commercial Buildings

Small- to medium-sized commercial buildings (SMCB) house businesses and organizations that are essential resources for low-income and disadvantaged communities. These buildings are where community members shop, eat, worship, access essential services, and connect with other community members. These buildings are often older, and, similar to surrounding homes, may have deferred maintenance and multiple upgrade needs.

SMCB owners can make the most of necessary upgrades by investing in energy-efficient appliances and using green financing and funding structures. SMCB owners typically operate on constrained budgets with limited access to upfront capital, making it difficult to afford building upgrades. Unlike larger buildings, SMCBs usually lack dedicated facility management staff and/or in-house technical expertise, making it hard to identify, design, and implement effective solutions. Because they are often older, they can have an increased risk of unexpected complications and code compliance issues during retrofits. Given their high sticker price, investments in efficient heating, ventilation, and air conditioning (HVAC) and building envelope upgrades are not an obvious solution to these challenges. Creative financing structures, utility and state incentive programs, and utility bill cost saving potential, however, can tip the economic balance in favor of energy-efficient upgrades to SMCBs.

This guide is intended for building energy upgrade program administrators focused on accelerating upgrades in SMCBs. Administrators can use this resource to help SMCB owners

identify capital sources to finance energy upgrades and overcome budget challenges. The resource covers flexible funding options—including low-restriction incentives, grants, and financing to cover funding gaps—to help support energy retrofits in SMCBs. It aims to guide program administrators in understanding the different funding options that may be available to SMCB owners and to begin to conceptualize a capital stack that can help the owners complete projects cost effectively.

SMCB Project Funding and Financing Options

This section outlines funding and financing options that SMCB owners can leverage within their capital stack to support energy upgrades. A scan of existing funding mechanisms and potential funders for a proposed project can provide an overview of what is available and help fill funding gaps. Incentives, philanthropic funding, and loans can bridge funding gaps, but their availability is highly localized, subject to change, and not well-communicated publicly.

As incentives, rebates, and applicable programs are subject to change, the options presented here serve as illustrative examples. The options outlined in table 1 can differ according to project type, geographic location, and borrower profile.

Table 1: Commercial retrofit funding types

Funding type	Description	Examples
Non-competitive funding	Funding sources available to specific entities (e.g., small businesses) for specific upgrades (e.g., energy efficiency upgrades)	• Utility incentives • City / county programs • State programs • Tax incentives
Competitive funding	Funding sources that require a competitive application or funding request to undertake a specific project	• Philanthropic grants • State grant programs / competitions • Federal grants • Technical assistance programs
"Low-cost" debt	Low interest or forgivable debt options to enable a specific project type	• Community Development Financial Institution (CDFI) loan programs • Commercial Property Assessed Clean Energy (C-PACE) • Green bank loans • On-bill financing • Energy service companies (ESCO) • Power purchase agreements (e.g., for solar)

Funding type	Description	Examples
Traditional debt options	Traditional building loans for commercial retrofits	• Mortgage loans

A checklist summarizing the available funding options outlined above is provided in Appendix A to assist teams in structuring their project capital stacks.

Non-competitive funding sources

Non-competitive funding is available for energy efficiency and infrastructure, and local development programs. These sources include state, city, and municipal grants, rebates, and tax credits designed to encourage energy upgrades focused on specific technologies or building sectors. For example, Puget Sound Energy (PSE) Business Incentives program provides funding for businesses and nonprofits to make their buildings more energy efficient and reduce their energy costs. PSE's grants offer funding for heating and cooling controls, lighting retrofits, installation of digital controls, and upgrades to plumbing fixtures.

Puget Sound Energy (PSE) Business Efficiency Program

The PSE business energy efficiency program offers tailored funding for small businesses in PSE's electric service area. PSE offers free energy assessments to small businesses and then helps them assess and maximize their incentives for the recommended upgrades. Some of the incentives are standard parts of the program (like LED lighting) while others depend on a business owner's needs and goals.

Information on state and local rebates and incentive programs can be found through the Database of State Incentives for Renewables and Efficiency (DSIRE).

Additionally, utilities may offer rebates and direct incentives for implementing energy-efficient technologies, including upgrades to lighting, HVAC systems, insulation, and controls. Seattle City Light, for example, supports businesses in reducing energy consumption through its Commercial and Industrial Retrofit Program. Its programs help offset the cost of lighting system and controls upgrades, commercial equipment, and improvements, including HVAC system tune-ups and installation costs for building automation systems. Many projects—such as exterior and interior

LED lighting, HVAC, electric motors, refrigeration, food service equipment, and water pumps—may also be eligible for 0% financing loans or on-bill financing options.[1]

After reviewing state, local, and utility funding, SMCB project teams can consult U.S. Department of Energy (DOE), Environmental Protection Agency (EPA), or Department of Agriculture (USDA) resources for additional funding opportunities. Programs such as DOE's Building Technologies Office occasionally provide direct funding.

Competitive non-debt options

Certain private philanthropic organizations, nonprofits, and state programs offer competitive grants to support small-scale businesses in areas requiring assistance. These grants can cover up-front expenses—including audits, project design, and initial installation costs—that SMCB owners typically cannot finance through traditional methods. Eligible projects may include those focused on resilience, workforce development, and community health, such as roof repairs, solar installations, and mold mitigation. Philanthropic sources play a crucial role in bridging funding gaps for SMCB energy upgrades. The Foundation Directory Online provides a useful resource for identifying local energy efficiency funders.[2] The U.S. Chamber of Commerce also compiles a comprehensive list of small business grants and other opportunities to connect businesses with programs and organizations that offer support.[3]

Kresge Foundation

The Kresge Foundation provides grants to projects that build on existing local infrastructure to make a lasting impact. In some cases, this has looked like working alongside local organizations and small businesses to make their buildings more energy efficient and resilient to challenges like power outages. The Kresge Foundation also partners with local institutions to plan capital investments during the audit, design, and early-stage installation phase of a project.

[1] Examples of on-bill repayment programs for small commercial customers are available at https://www.puc.pa.gov/Electric/pdf/Act129/OBF-Program_Ex_Small_Comm_Customers.pdf.
[2] Access to Foundation Directory requires a paid subscription: https://fconline.foundationcenter.org/.
[3] The U.S. Chamber of Commerce updates the list of loans, small business grants, and other opportunities weekly at https://www.uschamber.com/co/run/business-financing/small-business-grants-and-programs.

Low-cost debt options

Low-cost debt enables SMCB owners to purchase and implement energy-efficient technologies such as advanced lighting, HVAC systems, insulation, and building controls with little upfront cost and flexible payback terms. The specific terms and offerings vary by lending institution and may differ among communities. To effectively leverage low-debt financing options, it is important to understand the landscape of local investors as well as national or regional lending programs.[4] SMCB owners may be hesitant to take on debt or enter into loan agreements. However, loans with low interest rates, flexible underwriting criteria, and repayment schedules aligned with anticipated cost savings from building upgrades can increase the likelihood of participation by SMCB owners.

Nevada Clean Energy Fund (NCEF)

Nevada's green bank, NCEF, helps businesses, nonprofits, and government building owners reduce their energy costs. It provides up to $1 million in low-cost, long-term financing for energy upgrades, including solar, storage, geothermal heat pumps, HVAC improvements, and weatherization. NCEF also supports access to USDA and other energy efficiency resources in addition to tailored financial and technical support to help commercial buildings reduce energy use and operational expenses.

Examples of low-cost debt options include green bank[5] loans, local or state government-sponsored revolving loan funds, power purchase agreements (which enable borrowers to repay their loans through the earnings from, for example, rooftop solar), and on-bill financing (which allows borrowers to pay for a loan through their energy savings). Small commercial entities can also consider energy-efficiency-as-a-service companies (ESCO) to conduct energy projects and structure the payment process using projected energy savings. See Appendix B for a glossary of terms that includes definitions of these low-cost debt options.

Government-backed loans such as USDA Rural Development loans[6] and Small Business Administration (SBA) 504 loans can be used to upgrade equipment to improve energy efficiency, though payment periods tend to only be slightly more competitive than traditional building loans. CDFIs[7] also offer loans, funding, and technical assistance to help individuals, businesses,

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[4] The DSIRE database can serve as an initial resource for teams seeking to identify federal and local loan programs.

[5] More information on green banks is available at https://coalitionforgreencapital.com/about-us/our-network/.

[6] For details on USDA programs, visit https://www.rd.usda.gov/programs-services/energy-programs.

[7] CDFIs are mission-driven lenders that aim to expand economic opportunity in low-income communities by providing access to financial products. CDFIs can be banks, credit unions, loan or microloan funds, or other types of financiers (source: https://www.cdfifund.gov/).

and organizations close funding gaps. CDFIs tend to operate on a highly local level and can be more responsive to specific market needs than federal entities.

Market-rate debt options

Beyond their low-interest counterparts, banks, credit unions, and other financial institutions offer market-rate debt options, including traditional loans, equipment financing, and private-market loans secured by property. Alongside funding from public agencies and private organizations, these debt products play a crucial role in financing building upgrade projects. Small business owners can pay particular attention to the green finance portfolios and efforts among local and national lending institutions. These portfolios are earmarked by their institutions for green investments and may increase a project's competitiveness for a loan. Borrowers typically need strong credit, a business plan, and some form of collateral.

EastRise Credit Union's Business Energy Loan Program

EastRise's Business Energy Loan offers Vermont businesses, nonprofits, and multifamily building owners financing for energy efficiency improvements such as upgrades to HVAC, lighting, building envelope, refrigeration, and other systems and equipment with no closing costs and zero down payment. It features a streamlined process with low interest rates (5.5%–7.5% as of July 2025), flexible terms up to 10 years, and loans up to $50,000. Eligibility requirements include a minimum project cost of $3,500 and a minimum credit score of 660.

Non-bank financial institutions also provide financing solutions for commercial building upgrades to improve resilience, energy efficiency, and comfort. The National Energy Improvement Fund (NEIF),[8] for example, offers equipment financing, which is used for funding equipment and upgrades, as well as custom projects.

[8] Details on NEIF's financing options for commercial building energy improvements can be found at https://www.neifund.org/.

SMCB Project Capital Stack

Once teams identify available funding and financing options, they can develop a capital stack that outlines project components and their projected costs. Some funding options in the capital stack, such as grant funding and foundation support, will vary and depend on successfully securing those awards. The figure below illustrates a potential funding stack for a small- to medium-sized business installing a heat pump. The costs are calculated using a 2022 cost study from the City of Seattle Office of Sustainability and Environment. For the purposes of this stack, we assume a 4,000-square-foot commercial building with a retrofit cost of $80,000.

Figure 1: HVAC retrofit for Seattle SMCB payment structure

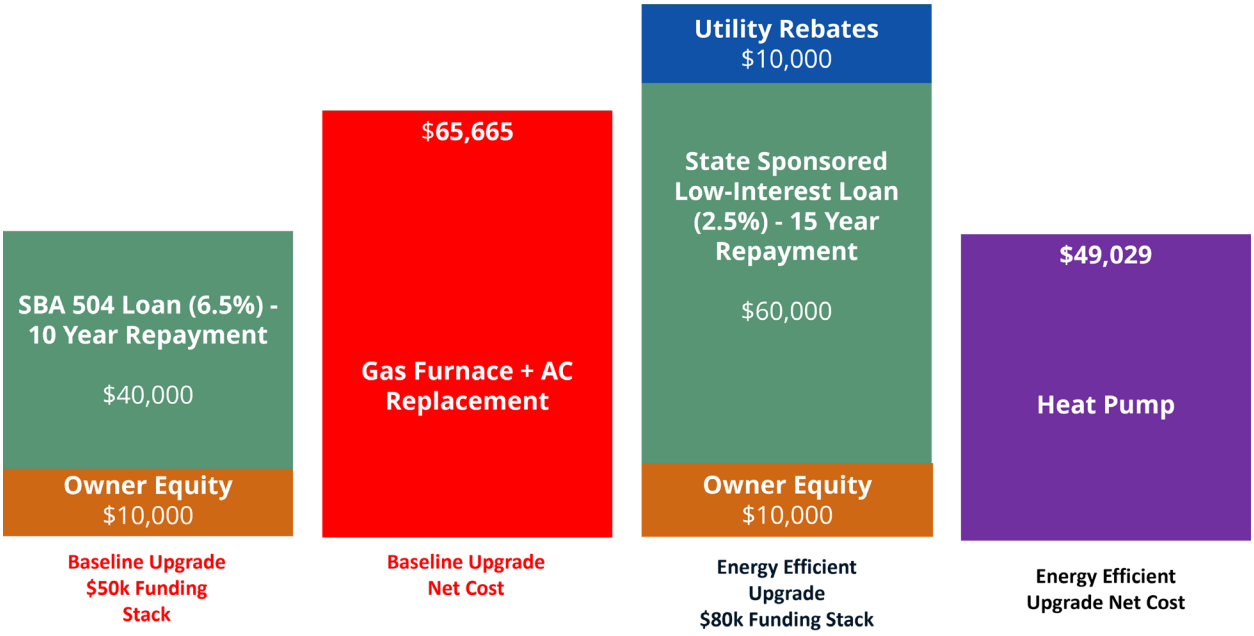

Figure 1 compares a hypothetical heat pump installation with the baseline cost of replacing a separate gas furnace and air conditioning system. In both scenarios, the owner offers $10,000 in equity. Without energy efficiency measures, the owner is eligible for a bridge loan through the SBA. With energy efficiency measures, the owner is eligible for a loan through Washington State's Sustainable Energy Trust. Under the baseline upgrade, the owner pays $5,566.54 per year for 10 years and sees no cost savings. With the energy-efficient upgrade, the owner saves $2,300 per year in utility costs and pays $4,901.96 per year in loan payments over 15 years. After the loans are closed, the owner's expenses are **$65,665.40 (including initial equity) for the standard upgrade** and **$49,029.40 for the energy-efficient upgrade**.

Loans with competitive rates, longer terms, low or zero down payments, and streamlined application processes can help building owners—especially those not served by traditional

lenders—bridge funding gaps and upgrade their properties, helping accelerate sector-wide savings and improvements.

Funding and financing can increase SMCB project volume

Grants, incentives, and favorable loan programs can reduce the upfront capital required for upgrades such as lighting, HVAC, insulation, or solar, making projects more attainable to SMCB owners with limited cash flow. When combined, philanthropic and government grants along with loans (e.g., SBA loans, energy-focused revolving loans) can lower total project costs, mitigate financial risk, and encourage private funding, supporting implementation even in buildings with narrow margins or uncertain returns.

Building upgrade administrators who focus on promoting upgrades in SMCBs can use the available funding checklist in Appendix A to systematically explore the various funding options available to support their building upgrades, including non-competitive funding, competitive non-debt funding, low-cost debt, and market-rate debt. After working through the checklist, program administrators can begin to build capital stacks that reflect the funding opportunities available in each context and match the scope of upgrades SMCB owners seek to implement to help make the business case for upgrades and clearly communicate financing options to SMCB owners. Program administrators' funding braiding strategies will need to be revisited regularly as funding environments change and different resources become available to support SMCB upgrades.

Thank you to our funders

JPMorganChase

T S F The Summit Foundation

Esther A. & Joseph Klingenstein Fund
A KLINGENSTEIN PHILANTHROPY

Appendix A

Available Funding Checklist

This checklist helps teams systematically explore and layer different types of capital—from grants and incentives through debt options—to support energy upgrades or improvements in small- and medium-sized commercial buildings.

1. Identify non-competitive funding sources for small businesses in your community

☐ Utility incentives. Examples include:

- Direct incentives for building upgrades
- On-bill financing programs

Where to Look - Local utility website or search engines to identify existing incentives and rebates, or the Database of State Incentives for Renewables and Efficiency (DSIRE).

☐ City / County programs. Examples include:

- Weatherization Assistance Programs (WAP), Community Development Block Grants (CDBG)
- County Commercial Property Assessed Clean Energy (C-PACE) programs
- Local tax incentives
- Power purchase agreements (PPA) for solar

Where to Look - Local municipal websites or use search engines to identify local grants.

☐ State program grants, rebates, and incentives for projects. Examples include:

- State grant and rebate programs
- State Commercial Property Assessed Clean Energy (C-PACE) programs
- Tax incentives (e.g., deductions, credits, accelerated depreciation)
- PPAs for solar

Where to Look - Database of State Incentives for Renewables and Efficiency (DSIRE)

☐ Federal incentives for building upgrades grants. Examples include:

- WAP

- U.S. Department of Housing and Urban Development (HUD) programs

Where to Look - grants.gov, DOE's Funding Opportunity Announcements and Grants page, U.S. Department of Energy (DOE), and ENERGY STAR Rebate Finder.

2. Identify competitive non-debt options

☐ Philanthropic grants
☐ State programs
☐ State and city technical assistance programs
☐ Federal competitive grants

Where to Look - The Foundation Directory Online to find local sources for funding and the Database of State Incentives for Renewables and Efficiency (DSIRE).

3. Identify low-cost debt options

☐ Green bank loans (visit https://coalitionforgreencapital.com/about-us/our-network/)
☐ USDA rural development grants (visit https://www.rd.usda.gov/programs-services/energy-programs)
☐ Small Business Administration SBA-504 loans (visit https://www.sba.gov/funding-programs/loans/504-loans#how-do-i-use-a-504-loan)
☐ Patient capital (long-term funding with no expectation of turning a quick profit) (visit https://www.researchgate.net/publication/308877992)
☐ Funding from Community Development Financial Institutions (visit https://www.cdfifund.gov/)
☐ Local or state government revolving funds (visit https://www.epa.gov/statelocalenergy/revolving-loan-funds)

4. Identify market-rate debt options

☐ Traditional building loans
☐ Bank or vendor loans for equipment financing
☐ Nonprofit loans for equipment and custom projects
☐ Investor green finance portfolio of products: Attracting investors with specific goals for the environmental impact of their investments

Appendix B

Glossary of Terms

Capital stack – The full set of financing instruments used to fund a project or program, including various potential forms of debt and equity. (EquityMultiple)

Commercial Property Assessed Clean Energy (C-PACE) – Financing structure that enables building owners to borrow money and make repayments via an assessment on their property tax bill. The loan is attached to the property, not to the building owner. (U.S. DOE, Better Buildings)

Community Development Financial Institution (CDFI) – Mission-driven lenders that expand economic opportunity in low-income communities by providing access to financial products. CDFIs can be banks, credit unions, or other types of lenders. (CDFI Fund)

Competitive non-debt options – Grants or incentives that require an application and in which some applicants are selected over others.

Direct funding – Funding provided to an organization directly by a governmental entity or intermediate organization. (U.S. Department of Health & Human Services)

Direct incentives – Incentives targeted directly at consumers via rebates or point of sale discounts.

Equity – The value of an ownership stake after subtracting for any debts. (Fidelity)

Energy Service Company (ESCO) – An entity that develops, designs, builds, and arranges financing for energy-saving projects. When an ESCO implements a project, its compensation is directly linked to actual energy cost savings achieved through project measures. (U.S. DOE)

Green bank – Mission-driven institution that uses innovative loan financing to accelerate the adoption of energy-efficient technologies. (Coalition for Green Capital)

Low-cost debt options – Loan financing options with below-market-rate interest rates, including government-backed loans, revolving loan funds, loans through CDFIs or green banks, on-bill financing, power purchase agreements, or energy saving performance contracts through energy service companies.

Market-rate debt options – Loan financing options with market-rate interest rates, typically offered through conventional banks.

Non-competitive funding – Incentives, grants, or other funding mechanisms to which an entity has non-competitive access (i.e., if they apply for or request the funding, they will receive it).

On-bill financing – A mechanism where repayments for energy efficiency or other building improvements are made monthly through an existing utility bill. (Environmental and Energy Study Institute)

Patient capital – Gives small businesses the chance to access financing with additional time to repay the loan while ramping up operations, due to a "patient" period of repayment during which borrowers pay less than interest-only. Common sources of patient capital include equity investors and alternative lenders such as CDFIs. (Pursuit)

Power purchase agreement (PPA) – An arrangement most commonly used for renewable energy systems in which a third-party developer installs, owns, and operates an energy system on a customer's property, and the customer purchases the electric output for a specific period. (U.S. DOE, Better Buildings)

Rebates – Money that is credited or returned to a customer on completion of a transaction. "Point-of-sale" rebates are automatically subtracted from the purchase price. (Investopedia)

Revolving loan fund – Uses a source of low-cost capital to make direct loans to borrowers, then uses loan repayments that are flowing back into the fund to lend again. Loans are typically long term and low interest. (U.S. EPA)

Small- to medium-sized commercial buildings (SMCB) – Commercial (non-residential or industrial) buildings that are 25,000 square feet or smaller.

Tax credits – An amount that a business subtracts from the tax it owes. (IRS)

Traditional building / construction loan – Short-term loan to fund new or major construction projects. The lender releases the funds, usually directly to the contractor, when major milestones are completed. (Bankrate)

Underwriting – A detailed evaluation performed by lenders to assess the risk of a loan that typically includes credit analysis, property appraisal, financial projections, and market analysis. Based on the findings, the lender may approve the loan, adjust terms, or request additional guarantees to mitigate risk. (Security Bank & Trust Co.)