Thought Leadership – June 2026

Performance Contracting

THE ON-RAMP TO DECARBONIZATION FOR LOCAL GOVERNMENT

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Acknowledgements

This article is a collaborative effort by Scott Brown, Bob Smith, and Gina Bicknese representing the views of Veregy.

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Bob Smith
Bob is the Director of Sales for Veregy's Central Region and brings more than 35 years of experience in the energy services industry. A recognized leader in Energy Savings Performance Contracting (ESPC), Bob has helped shape the energy efficiency landscape across Illinois and the Midwest through his work with public agencies, utilities, and private-sector organizations. Since joining Veregy in 2019, Bob has worked closely with K–12 school districts, higher education institutions, counties, and municipalities to develop energy optimization and infrastructure modernization strategies. Bob played a key role in helping establish the legislative framework that enabled ESPC procurement in Illinois and has founded and managed multiple successful Energy Service Companies throughout his career.

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Gina is the Director of Marketing for Veregy's Central Region, bringing more than 30 years of experience in marketing, communications, public outreach, and client support. Since joining Veregy in 2006, Gina has supported all Veregy's vertical markets and internal divisions through strategic marketing, business development, and communications initiatives that help teams win, deliver, and grow. Drawing on her background as City Clerk for the City of Ames, Iowa, Gina brings firsthand knowledge of local government operations and stakeholder engagement. She specializes in translating complex energy, infrastructure, and decarbonization projects into clear, compelling messages for elected officials, administrators, and community members.

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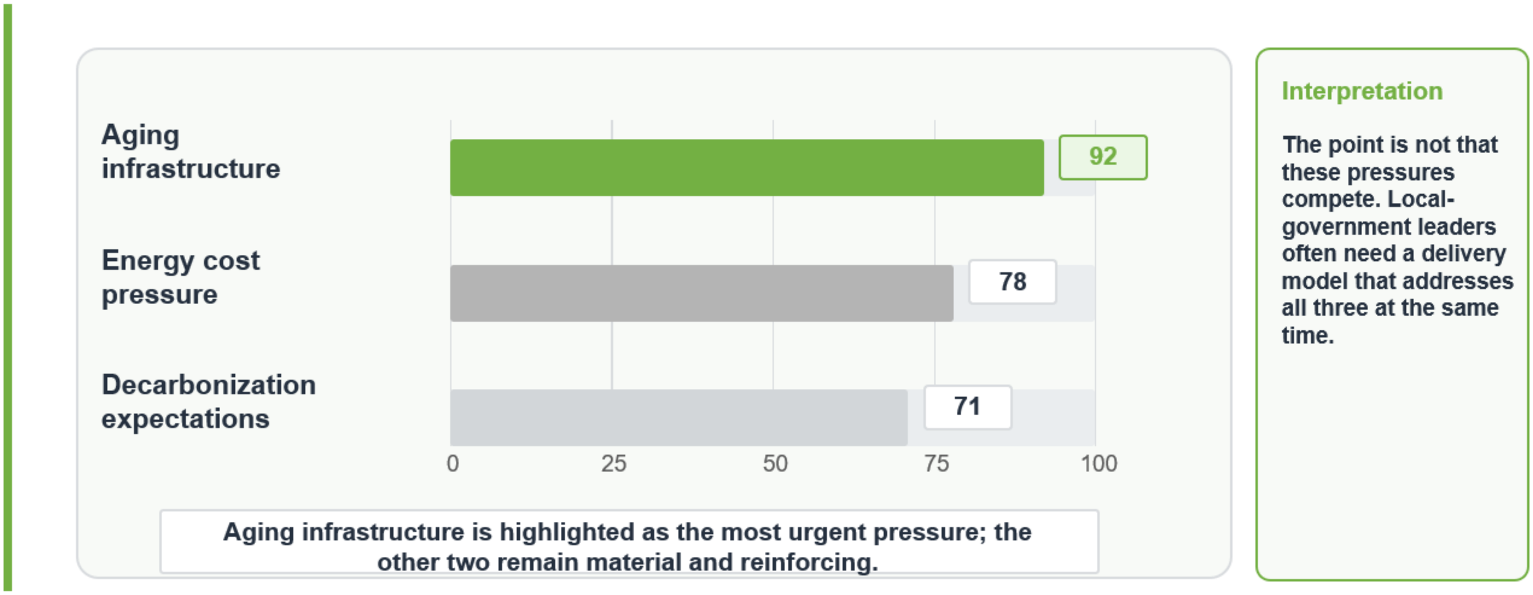
Executive Summary

Local governments do not have a technology problem on decarbonization; they have a capital allocation and execution problem. Energy Savings Performance Contracting (ESPC) addresses both by converting avoided utility and maintenance costs into a funding stream for infrastructure modernization, while transferring a meaningful share of performance risk to an energy service company (ESCO).

The implication is increasingly important. Cities, counties, and other public agencies are being asked to reduce emissions, improve resilience, modernize aging buildings, and preserve fiscal flexibility at the same time. The most effective decarbonization strategies therefore are not those that maximize ambition in a climate plan, but those that align climate outcomes with budget discipline, procurement realities, and operational capacity.

Local governments face three pressures at once.

Illustrative bar chart highlighting the concurrent infrastructure, cost, and decarbonization pressures shaping local-government decision making.



Relative bar lengths are directional and intended to frame the leadership challenge rather than represent a measured index.

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Exhibit A

The central thesis

For many local governments, ESPC is the most practical mechanism for turning climate goals into implemented projects.[1] It allows public owners to bundle efficiency, electrification, on-site generation, storage, and infrastructure renewal into a single investment program repaid from guaranteed savings, rather than waiting for new taxes, deferred capital appropriations, or fragmented grant cycles.

That matters because the public-sector decarbonization challenge is usually not the lack of identified opportunities. The challenge is that most opportunities sit across multiple facilities, departments, and budget silos, with different replacement cycles and different funding constraints. ESPC creates a portfolio-based framework that can move these investments from aspiration to execution.

ESPC can align fiscal discipline with decarbonization.

Illustrating how process provides budget certainty, expanded improvement portfolio, risk transfer and fast-track implementation.

Guaranteed savings

Performance-backed savings commitments help municipalities fund upgrades while preserving annual budget discipline and improving confidence in realized outcomes.

Portfolio modernization

Bundling HVAC, lighting, controls, resilience, and facility infrastructure into one program allows local governments to modernize aging assets across the portfolio.

Risk transfer

Technical design, construction coordination, and performance accountability can shift to the ESCO, reducing delivery risk for resource-constrained public owners.

Execution capacity

An integrated ESCO model adds planning, engineering, procurement, and implementation capacity so projects can move faster from concept to construction.

ESPC financing structure

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Exhibit B

Why conventional capital planning underdelivers

Traditional capital planning often fragments energy and decarbonization projects into separate line items: lighting in one year, HVAC in another, solar only if grant funding appears, controls later, and resilience measures only after a major failure. That sequencing can reduce near-term budget pressure, but it often destroys the economics of deep decarbonization because it leaves high-value synergies unrealized.

Three structural constraints tend to drive this outcome:

- Annual appropriations favor short-payback replacements over integrated modernization, even when the latter creates better lifecycle value.
- Departments manage their own priorities, so energy, facilities, fleet, and sustainability investments are rarely optimized as one portfolio.
- Public entities frequently carry significant deferred maintenance, which forces leadership teams to focus on equipment failure and service continuity before emissions reduction.

The result is familiar: local governments remain trapped in an incremental model that replaces failed assets but rarely reconfigures buildings and infrastructure for lower-carbon operations.

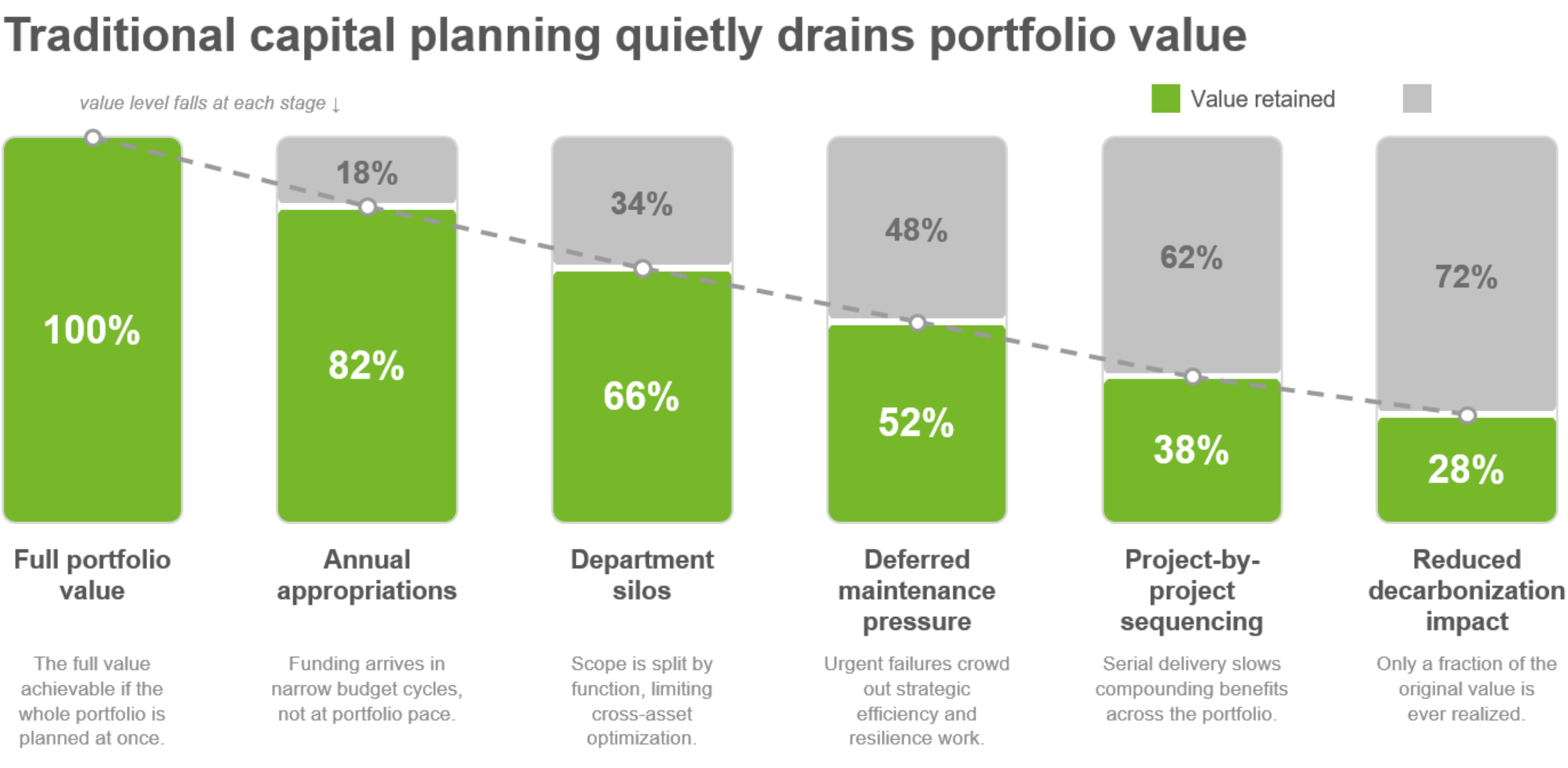

Exhibit C

How ESPC changes the investment equation

ESPC changes the decision logic from "What can be funded this year?" to "What package of measures can self-fund over time under a guaranteed savings structure?"

Under this model, the ESCO typically performs an investment-grade audit, develops a package of energy conservation measures, arranges or supports project financing, implements the work, and contractually guarantees a minimum level of savings.(2) If actual, measured savings fall below the guarantee, the ESCO is contractually required to make the owner whole for the shortfall.

This creates three advantages that are especially relevant to local government decarbonization:

- First, it allows comprehensive scope, because short-payback efficiency measures can support longer-payback clean energy and electrification measures within the same contract.
- Second, it accelerates timing, because projects can move without waiting for full upfront appropriations or voter-approved debt in every case.
- Third, it reallocates risk — the ESCO assumes a contractual obligation tied to performance, not merely delivering equipment.

In effect, ESPC transforms energy waste into investable cash flow and uses that cash flow to fund infrastructure that is cleaner, more reliable, and often easier to operate.

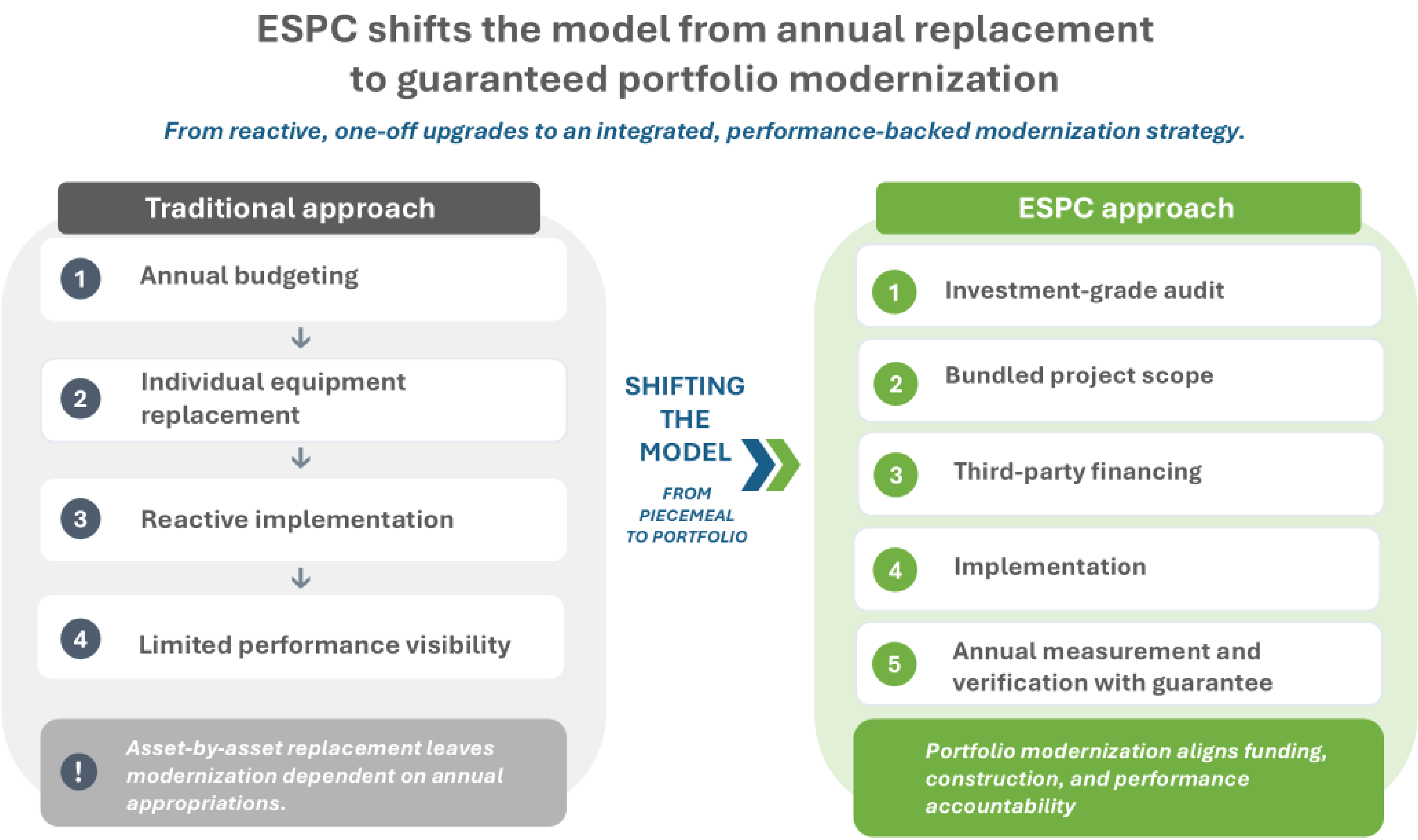

Exhibit D

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The strategic role of bundling

The economics of decarbonization improve materially when measures are bundled rather than pursued individually. This is one of the most underappreciated strengths of ESPC.

A standalone geothermal conversion, solar deployment, or storage project may appear difficult to justify on simple payback. But when these measures are paired with LED lighting, advanced controls, retro-commissioning, water savings, and high-efficiency HVAC replacements, the portfolio can generate enough near-term savings to support a broader capital scope.

This bundling logic matters because deep emissions reduction rarely comes from a single technology. It comes from combining demand reduction, system optimization, fuel switching, and cleaner supply. ESPC is one of the few public-sector delivery models explicitly designed to assemble that combination into a financeable package.

Bundling allows efficiency savings to fund deeper decarbonization.

Illustrative portfolio structure showing how short-payback measures can support broader capital deployment.

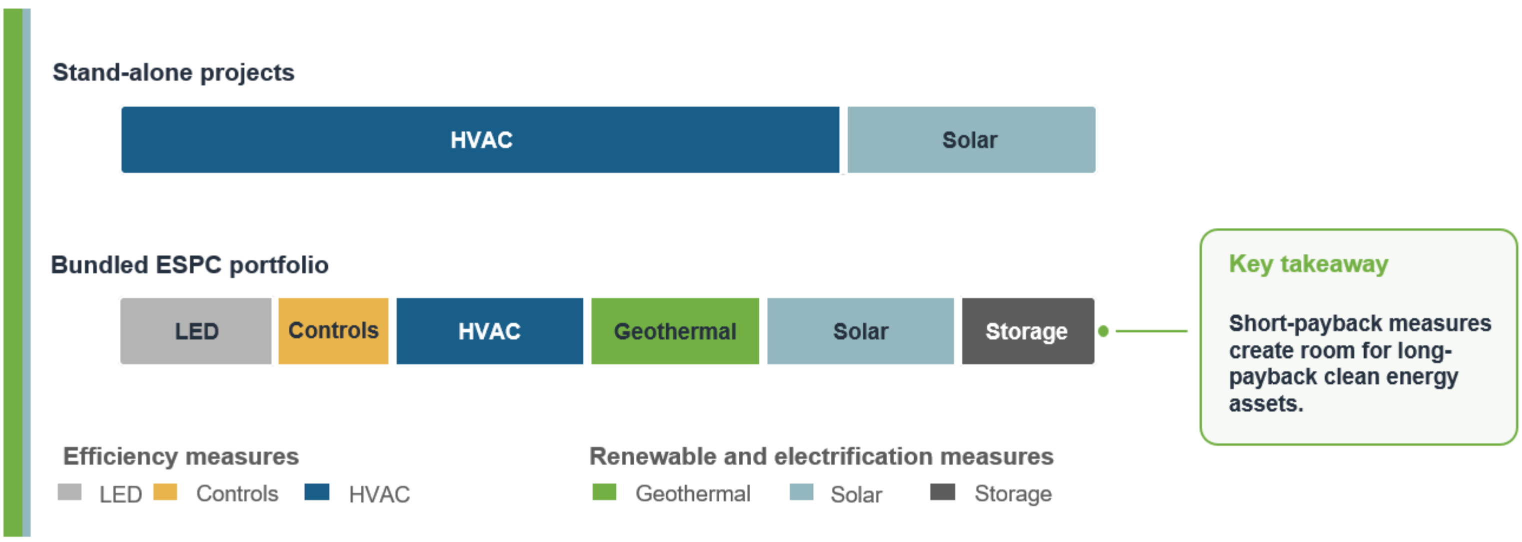


Exhibit E

What local governments can include in a decarbonization-focused ESPC

The typical decarbonization-oriented ESPC extends well beyond lighting retrofits. Depending on state rules, site conditions, and procurement strategy, the project scope can include a broad mix of measures.

The strategic question is not which single measure has the shortest payback. The better question is which portfolio best meets fiscal constraints while materially reducing emissions, maintenance exposure, and operational risk.

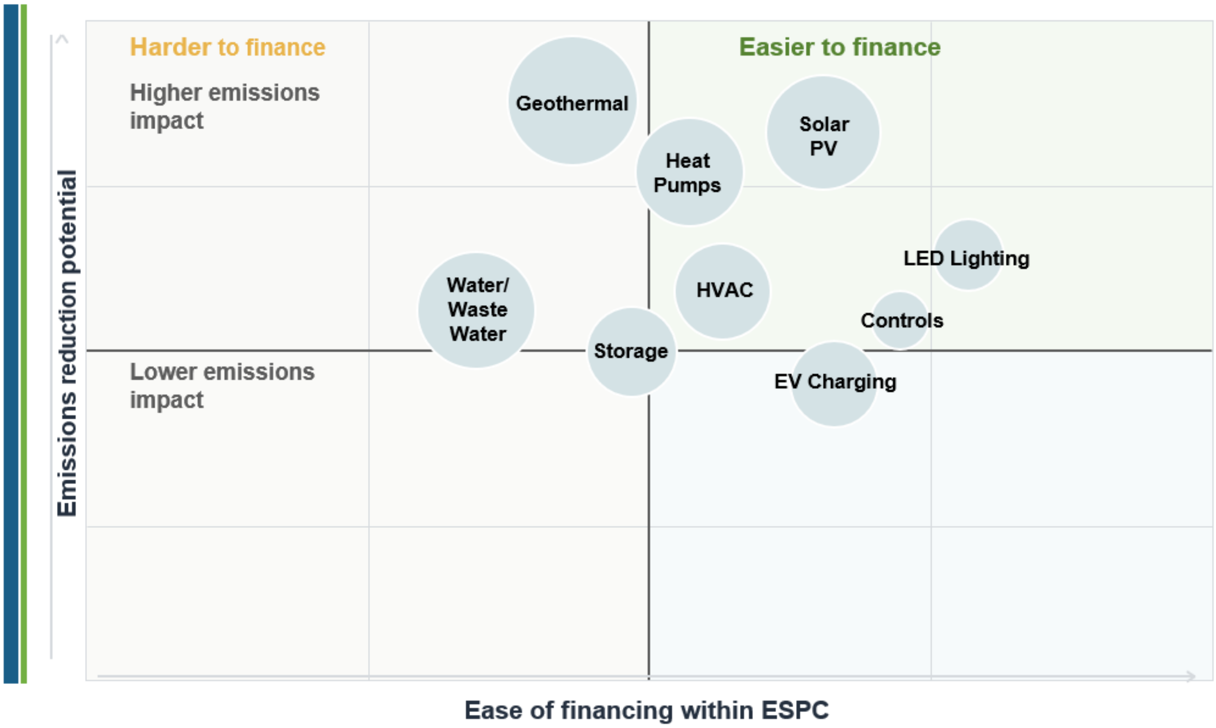
Decarbonization Measure Examples

Measure	Primary Value Creation	Decarbonization Relevance	Typical Strategic Role
LED lighting and controls	Immediate electric savings and reduced maintenance	Reduces grid electricity consumption and peak demand	Often strengthens early cash flow for the full bundle
Advanced building automation	Optimizes schedules, setpoints, and system interaction	Lowers wasted runtime and supports persistence of savings	Serves as the operating platform for broader modernization
High-efficiency HVAC and heat pumps	Reduces consumption and addresses aging assets	Enables building electrification and lower combustion emissions	Often paired with controls and envelope improvements
Geothermal systems	Delivers efficient heating and cooling over long asset lives	Can materially reduce emissions by shifting away from fossil-fuel-based heating and cooling	Best suited to sites with stable load profiles and long-term ownership
Solar PV	Offsets purchased electricity with on-site renewable generation	Directly lowers Scope 2 emissions from municipal operations	Frequently added once efficiency has reduced the underlying load
Battery storage	Improves resilience and can reduce demand charges	Supports higher renewable penetration and critical-operations continuity	Most compelling where resilience or tariff optimization matters
EV charging infrastructure	Supports municipal fleet transition and public access goals	Reduces transportation emissions when paired with electrification	Often included where local governments have fleet and public-facing objectives
Water and wastewater upgrades	Improves performance in high-load process environments	Delivers sizable energy and emissions reductions in utility-intensive assets	Often high-value for counties and municipalities with utility operations

Exhibit F

Different measures play different roles in a decarbonization-focused ESPC.

Illustrative portfolio matrix positioning common measures by finance ability and emissions impact; bubble size reflects implementation complexity.



How to read

Measures in the upper-right combine relatively stronger financing fit with larger decarbonization value.

Complexity

Bubble size indicates implementation complexity with larger bubbles represent more complex implementation.

Exhibit G

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City of Mission, KS (Performance Contract Project with Veregy)

A variety of improvements to City facilities and infrastructure not only improve indoor health and comfort for patrons and occupants but also reduce the City's energy and operational costs while minimizing the carbon footprint on the environment. Bipolar ionization technology at Powell Community Center improves the indoor air quality while boiler and chiller plant upgrades are major factors in reduced energy consumption and comfort. The Public Works Department and City Hall/Police Station also received major upgrades in HVAC, building envelope, and controls.

Project Energy Conservation Measures (ECM)

- Lighting & Lighting Controls
- Mechanical System Upgrades
- Destratification Fans
- Pool Smart Pump Controller and VFD
- Hypochlorite Generator
- Weatherization
- Wi-Fi Thermostat Control
- Weatherization
- LED Street Light Upgrade
- LED Traffic Light Retrofit

Annual Energy Reduction: $102,456

- Powell Community Center: 28%
- Public Works: 17%
- City Hall-Fire Station 17%
- Street and Traffic Lights – 36%
- kWh: 1,290,097
- kW Demand Savings: 1,584.7
- Natural Gas Therms: 24,988

"The combined improvements mean a better experience for our community and a reduced carbon footprint that we leave on the environment."

Penn Almoney Director of Parks & Recreation

Financing: the real bottleneck and the hidden opportunity

Most local-government climate plans underestimate how central financing design is to decarbonization outcomes. Project economics are shaped not only by equipment selection but by capital structure, contract term, treatment of avoided maintenance, and the owner's willingness to aggregate measures across facilities.

ESPC financing is flexible. Common structures include tax-exempt lease-purchase agreements, municipal leases, privately placed debt, and, in some cases, bond-backed or appropriation-backed structures[3]. The unifying principle is that annual repayment is set at or below the guaranteed savings stream, with contract terms often ranging from roughly 10 to 25 years depending on project mix and state rules.[4]

That flexibility has an important strategic effect: it allows leadership teams to optimize for lifecycle value rather than lowest first cost. For decarbonization, that is often the difference between replacing equipment like-for-like and fundamentally redesigning the energy system of a building or campus.

Financing structure can determine how much decarbonization is feasible.

Illustrative decision tree showing how financing choice influences scope flexibility and practical delivery constraints.

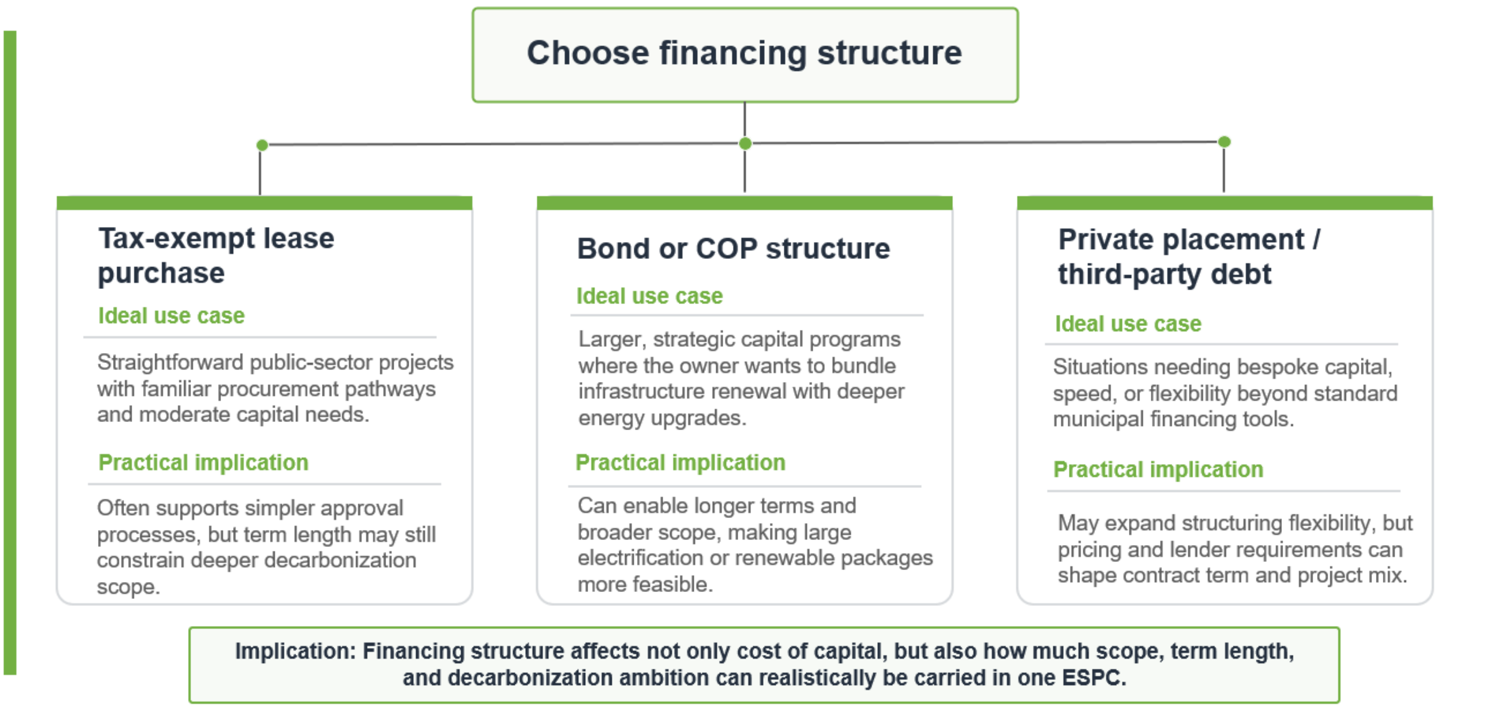


Exhibit H Veregy

Why the IRA changed the economics

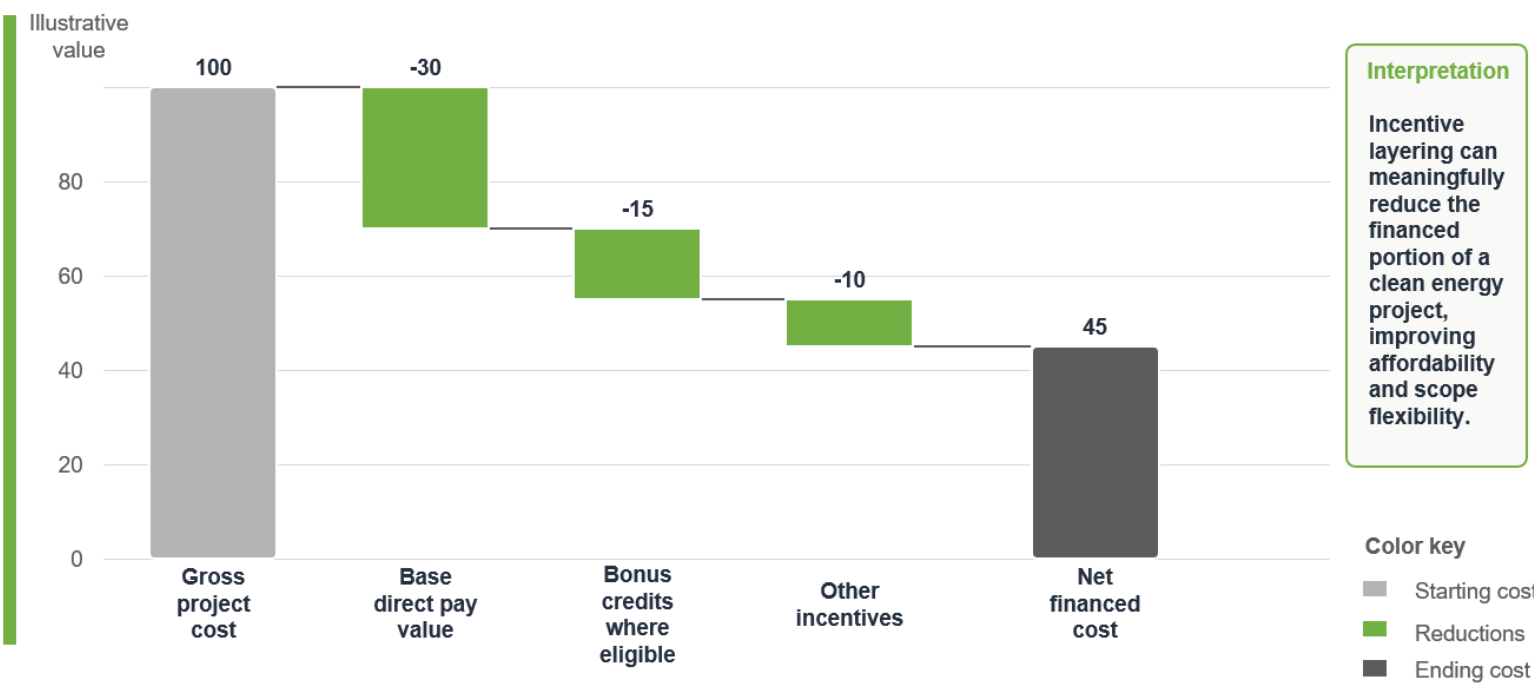
The Inflation Reduction Act materially improved the case for public-sector clean energy by allowing tax-exempt entities, including local governments, to access certain clean energy tax credits through direct pay, also known as elective pay.[5]

For public owners, that change is consequential. Historically, cities and counties could not directly capture the value of tax credits in the way private investors could. Under the IRA, qualifying public entities can receive direct cash value for eligible credits tied to technologies such as solar, storage, geothermal, and certain EV charging infrastructure, subject to federal rules and documentation requirements.[6]

The practical implication is significant. Historically, cities and counties could not directly capture the value of investment tax credits the way private investors could. Under direct pay, that barrier is removed for qualifying projects.[7] The result is that more projects now clear the financing hurdle, and projects that already made financial sense can often support broader scope — creating room for additional measures such as storage, electrification, and resilience upgrades.

Direct pay can materially reduce the effective cost of public-sector clean energy projects.

Illustrative waterfall showing how available incentives can reduce the amount that ultimately needs to be financed.



Eligibility for direct pay, bonus credits, and other incentives depends on project type and compliance.

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Exhibit I

Why ESPC and IRA are stronger together

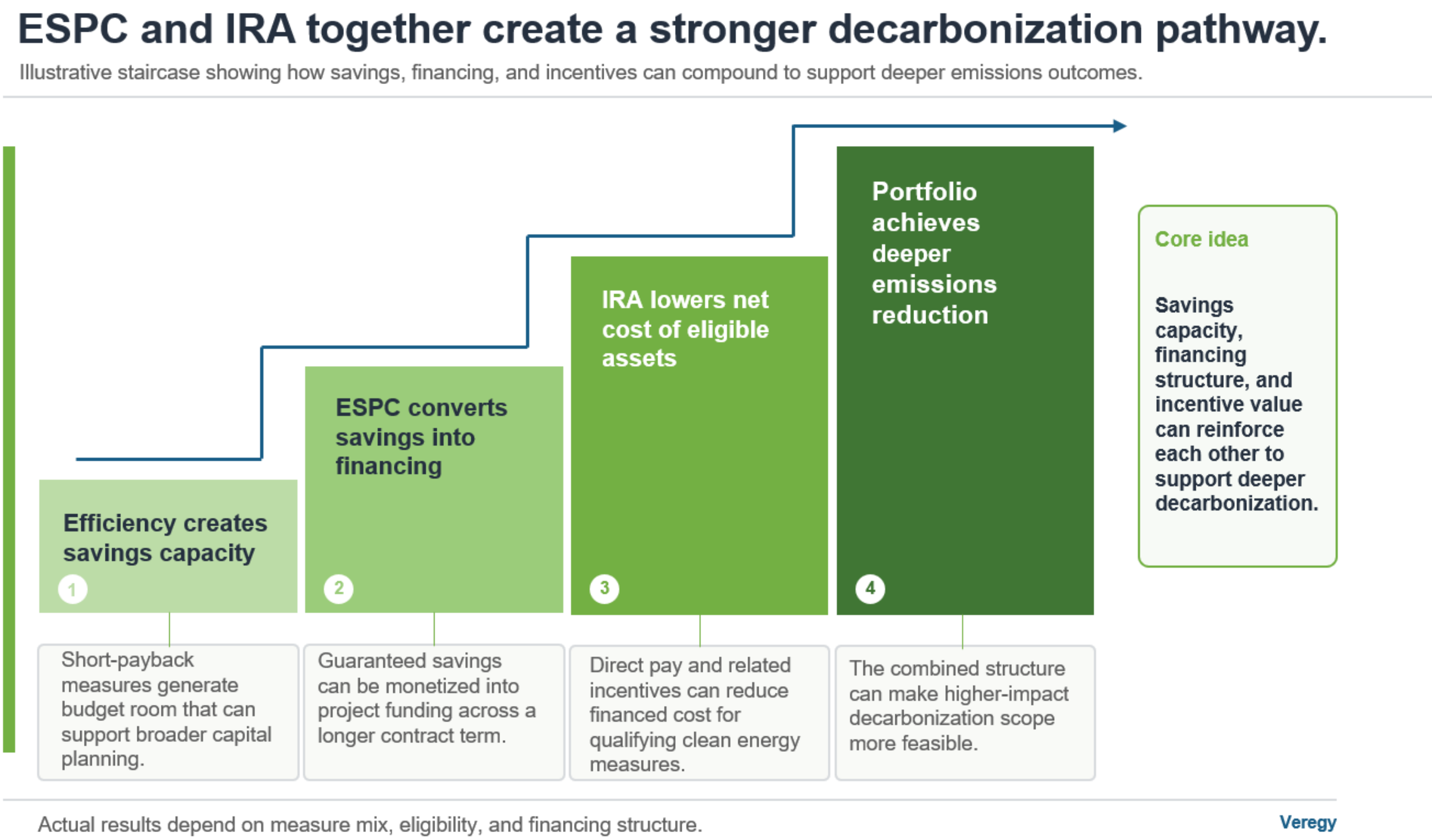


Exhibit J

The combined effect of ESPC and IRA is more powerful than either tool on its own. ESPC solves the execution and repayment challenge by converting savings into a project-financing mechanism. IRA improves the economics of qualifying clean energy assets by reducing effective project cost for eligible public owners. [8]

Together, they make it easier for a local government to move from an "efficiency-only" project to a broader modernization effort that can include on-site generation, thermal decarbonization, and resilience. In many cases, that means the public owner is no longer forced to choose between fixing old equipment and investing in lower-carbon infrastructure; both can happen in the same program.

A useful way to think about this is through the hierarchy of public-sector investment decisions:

- Efficiency reduces waste and creates savings capacity.
- Financing structures that savings into a predictable repayment model.
- IRA incentives lower the net cost of eligible clean energy assets.
- The resulting portfolio can deliver deeper emissions reduction with stronger budget outcomes.

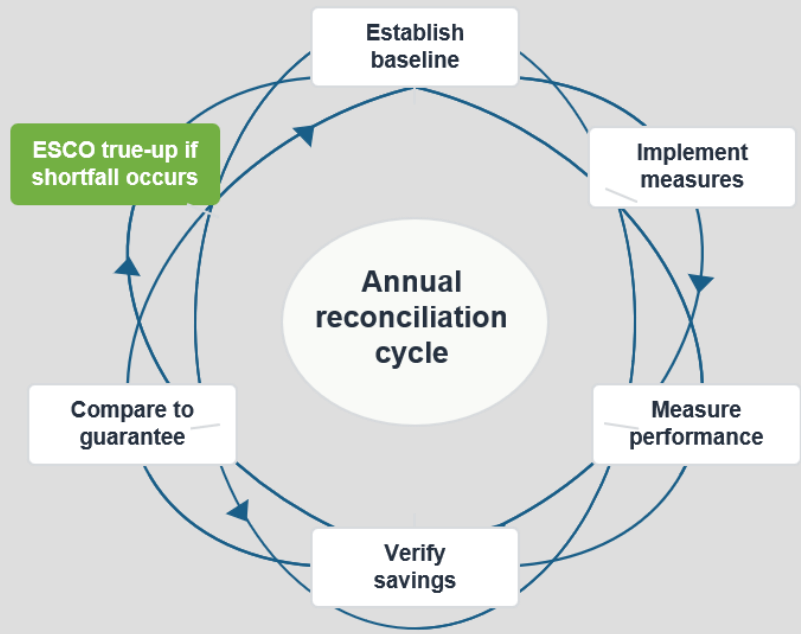
The guarantee: why the model is credible

A decarbonization strategy is only as credible as its performance discipline. This is where the ESPC savings guarantee matters most. A robust guarantee does not simply promise that utility bills should trend downward. It defines baseline conditions, identifies which savings streams count toward the guarantee, establishes the measurement and verification methodology, and specifies how adjustments will be handled when variables such as weather, occupancy, or operating hours change materially.

If verified savings fall below the guaranteed level, the ESCO is contractually obligated to pay the difference or otherwise remedy the shortfall, depending on contract terms. That structure is especially important for local governments because it provides a degree of budget protection that conventional capital projects typically do not offer. Finance officers are not being asked to trust an engineering estimate. They are being asked to evaluate a contract in which the provider stands behind a defined performance outcome.

The guarantee is enforced through annual measurement and reconciliation.

Illustrative closed-loop process showing how baseline, performance tracking, and annual true-up maintain accountability.



What matters

The process is not complete at implementation. Performance is measured, validated, and reconciled against the guaranteed outcome each year.

Highlighted enforcement step

If verified savings fall short, the ESCO true-up closes the gap and preserves accountability.

Actual M&V protocols vary by contract and project scope.

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Exhibit K

What gets guaranteed

In most cases, the guarantee is expressed in annual dollar savings derived from measured reductions in energy use and, where appropriate, water and maintenance costs. Some contracts track physical units such as kilowatt-hours, therms, or gallons and convert them into monetary savings using agreed utility rates and formulas.

Well-structured contracts typically rely on recognized protocols such as IPMVP, along with explicit treatment of baseline assumptions and any allowed adjustments.[9] This is not administrative detail; it is the mechanism that turns engineering projections into enforceable commercial commitments.

What the ESPC guarantee typically covers.

Illustrative exhibit showing common savings categories, how they are typically grounded, and whether they are commonly included in the guarantee.

Savings category	Typical basis	Measurement approach	Included in guarantee?
Energy cost savings	Modeled and normalized utility cost reduction from energy measures	Meter data, utility bills, stipulated factors, and periodic M&V reconciliation	✓ Typically yes
Demand savings	Peak demand reduction where tariff structure supports measurable avoidance	Interval data, tariff review, and engineering calculation tied to demand profile	✓ Typically yes
Water/sewer savings	Reduced water consumption and related sewer cost where measures affect usage	Meter reads, utility bills, fixture assumptions, and measured usage trends	✓ Typically yes
Avoided O&M savings	Deferred maintenance or avoided service cost that may be identifiable but less direct to prove	Often stipulated, owner-reviewed, or tracked separately from utility savings	— Case-specific

Reading note

Utility-related savings streams are generally easier to define, measure, and guarantee than softer avoided-cost categories.

Actual treatment depends on contract structure, M&V plan, and owner preferences.

Guarantee definitions and inclusions vary by jurisdiction, contract language, and measurement plan.

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Exhibit L

The operating model matters as much as the technology

One reason public-sector decarbonization projects underperform is that owners sometimes treat implementation as the finish line. In reality, a modernized facility portfolio requires a stronger operating model, not just better equipment.

Advanced controls must be monitored, schedules adjusted, alarms acted upon, and building staff trained to maintain performance over time. Heat pumps and geothermal systems require different operational familiarity than legacy fossil-fuel equipment. Solar and storage create additional value only when dispatch logic, tariff interaction, and resilience protocols are well understood.

The value of ESPC is that it can integrate these operational considerations into a longer-term accountability structure rather than leaving them as an afterthought after construction closes out.

Technology alone does not sustain savings; the operating model matters.

This chart represents a typical municipality's current operating environment prior to the implementation of a comprehensive Performance Contract, highlighting the gaps in processes, governance, training, and ongoing management needed to sustain long-term energy savings.

Capability	Current state	Required state
Building controls management	Reactive / fragmented	Proactive / governed
Analytics and dashboards	Limited / ad hoc	Standard / embedded
Staff training	Inconsistent	Role-based / recurring
Preventive maintenance	Partial / uneven	Planned / disciplined
Alarm response	Slow / manual	Prioritized / timely
Measurement and verification discipline	Periodic / basic	Routine / auditable

Interpretation

The largest gap is often not the technology itself, but the management system needed to operate and sustain it.

Heatmap labels are direct to make the capability shift explicit rather than implied by color alone.

Scale

- Needs
- Improvement Development
- Target State

Exhibit M

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Where local governments should start

The right starting point is usually not a single building. It is a portfolio assessment anchored in three questions:

- Which facilities have the highest combination of energy intensity, deferred maintenance, and strategic importance?
- Which measures create the largest pool of dependable savings that can support broader decarbonization scope?
- Which sites and technologies are best positioned to benefit from direct pay and other available incentives?

This portfolio view is important because the best decarbonization project is not necessarily the site with the best engineering case in isolation. It is the investment package that best balances speed, savings, carbon reduction, resilience, and political feasibility across the public owner's footprint.(10)

City of Collinsville, Illinois (Aqua Park Facility Performance Contract Project with Veregy)

The project goals were to renew the facility's façade, pools, locker rooms, and offices; lower the long term operational and maintenance costs; reduce the facility's consumption of energy and water; and enhance the quality of the facility. Energy Savings in Water, HVAC, Solar, and Lighting.

"The City of Collinsville is delighted with the upgrades and improvements at the Aqua Park and Activity Center. Not only is the appearance of the park greatly improved, but the efficiency the improvements have made will provide our residents savings for years to come."
Kimberly Caughran, Director of Parks and Recreation

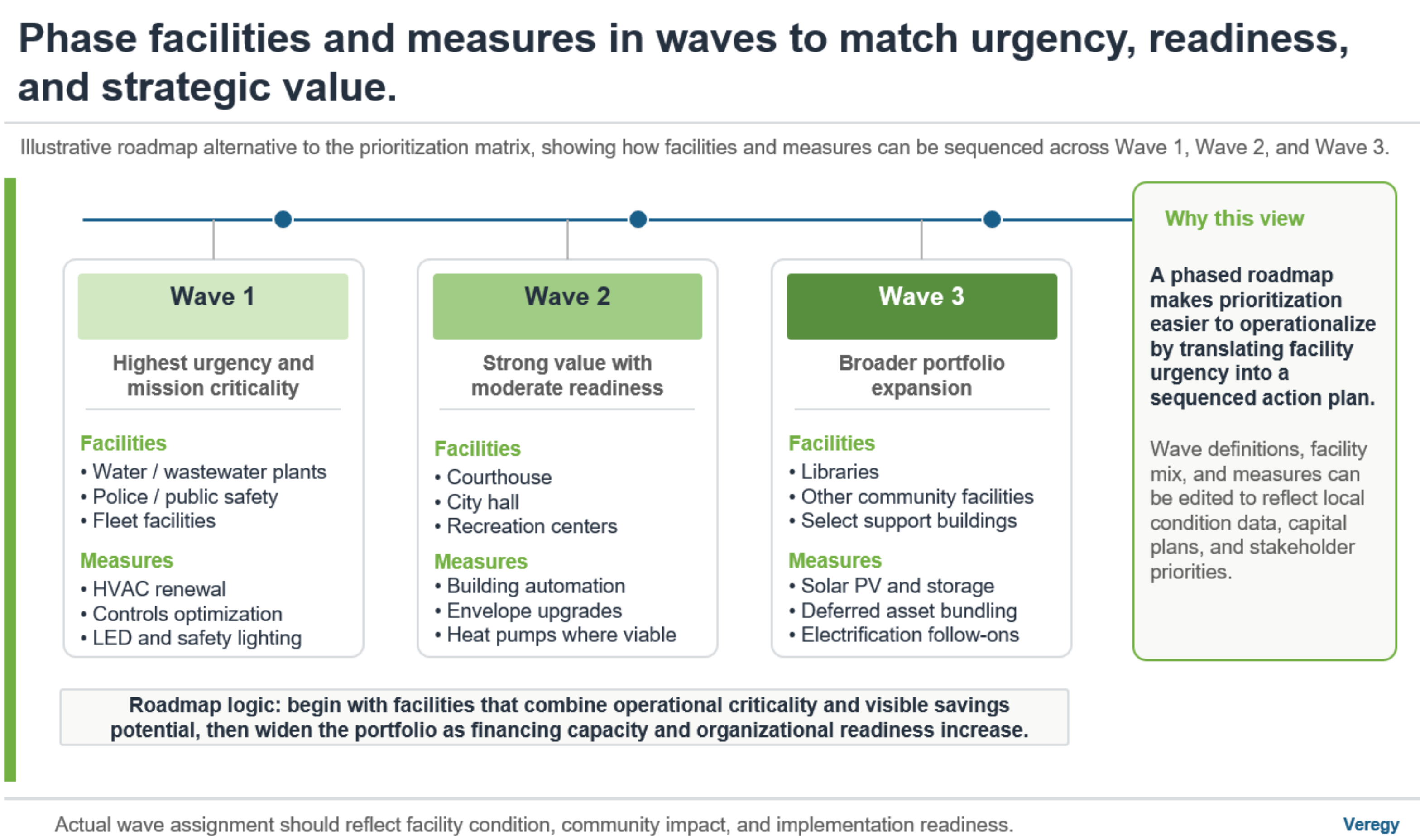

Exhibit N

What separates leaders from followers

The highest-performing local governments tend to approach ESPC as a strategic platform rather than a procurement tactic. They do four things differently:

- They link decarbonization targets directly to capital planning and facilities strategy, rather than running sustainability as a separate agenda.
- They bundle measures to maximize portfolio economics instead of selecting projects purely on simple payback.
- They design financing and incentive capture early, including IRA eligibility and compliance, rather than treating incentives as an add-on after scope is set.
- They treat measurement, verification, and operational follow-through as core management disciplines, not closing paperwork.

This is ultimately why ESPC deserves more attention in local-government thought leadership. It is not merely a way to replace old equipment. It is a mechanism for solving the institutional barriers that routinely prevent public-sector decarbonization from moving at the pace leaders say they want.

Leaders treat ESPC as a strategic platform, not a one-off procurement.

Illustrative maturity model showing how organizations evolve from project-by-project execution to strategic portfolio management.

Increasing organizational maturity

Capability	Reactive	Programmatic	Strategic
Governance	Project by project	Cross-functional coordination	Executive-owned roadmap
Portfolio view	Single asset focus	Bundled opportunities	Portfolio sequencing logic
Financing design	Standard term / scope	Structured for bundles	Designed to maximize flexibility
IRA/incentive capture	Opportunistic	Selective pursuit	Integrated into deal design
Performance management	Basic compliance	Periodic review cadence	Continuous value realization

Takeaway

The shift from reactive to strategic is less about buying more projects and more about governing ESPC as a long-term platform.

The strongest organizations connect governance, financing, incentives, and performance management in one model.

Exhibit O

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The implications for local-government leadership

For elected officials, city managers, finance directors, and public works leaders, the question is no longer whether cost-effective decarbonization technologies exist. They do. The more consequential question is which delivery model can translate those opportunities into funded, executed, and verified outcomes.(11)

ESPC increasingly stands out because it aligns four objectives that local governments usually struggle to satisfy simultaneously: infrastructure renewal, emissions reduction, budget protection, and execution accountability.(12)

That alignment is the core strategic point. When structured well, performance contracting gives local governments a credible path to cut energy use, lower maintenance exposure, modernize public assets, and advance decarbonization without forcing a trade-off between climate ambition and fiscal prudence.

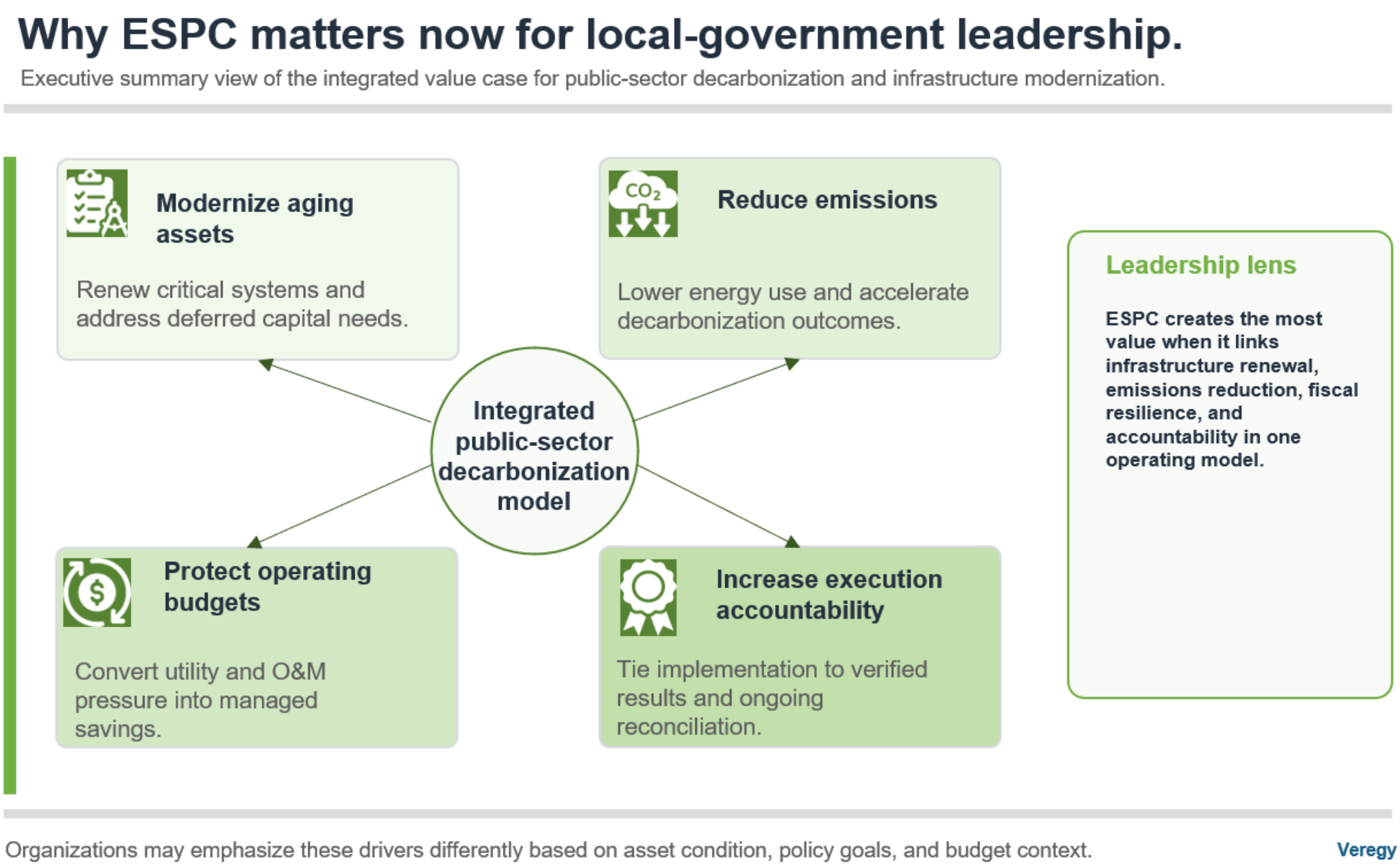
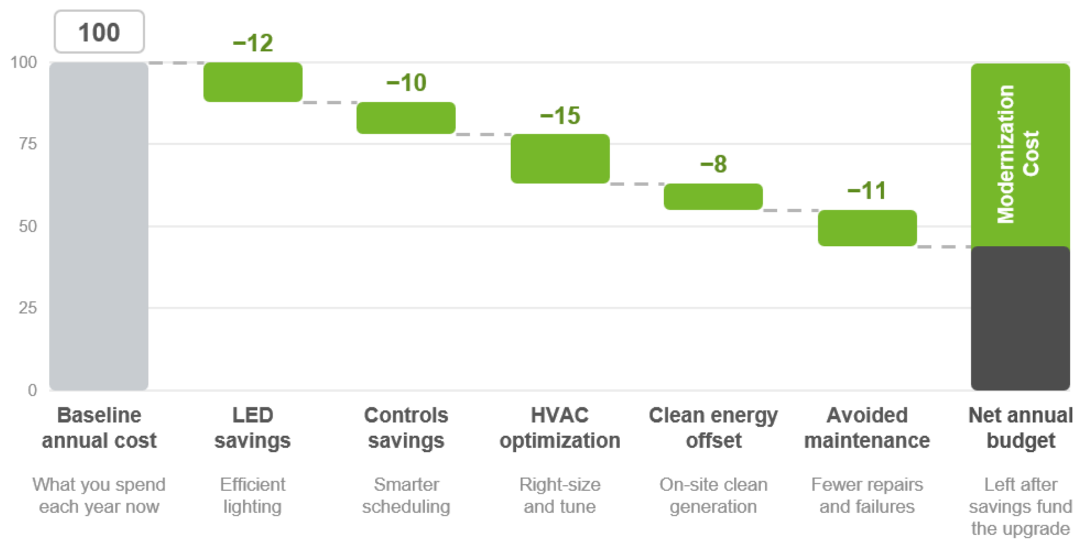


Exhibit P

Savings can fund modernization while preserving budgets

Read left to right: start at today's annual cost, each recurring savings stream steps it down, and you land at a neutral budget— **with modernization paid for!**



What this shows

Five recurring savings streams total **56** against a baseline of 100.

All of the modernization costs exist within the savings from the various Energy Conservation Measures

Green steps are savings; the dark bar is what remains after the upgrade is paid for.

Exhibit Q

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A typical local-government ESPC path from idea to verified savings.

Illustrative four-step timeline showing how municipalities progress from portfolio review to measured savings and reporting.

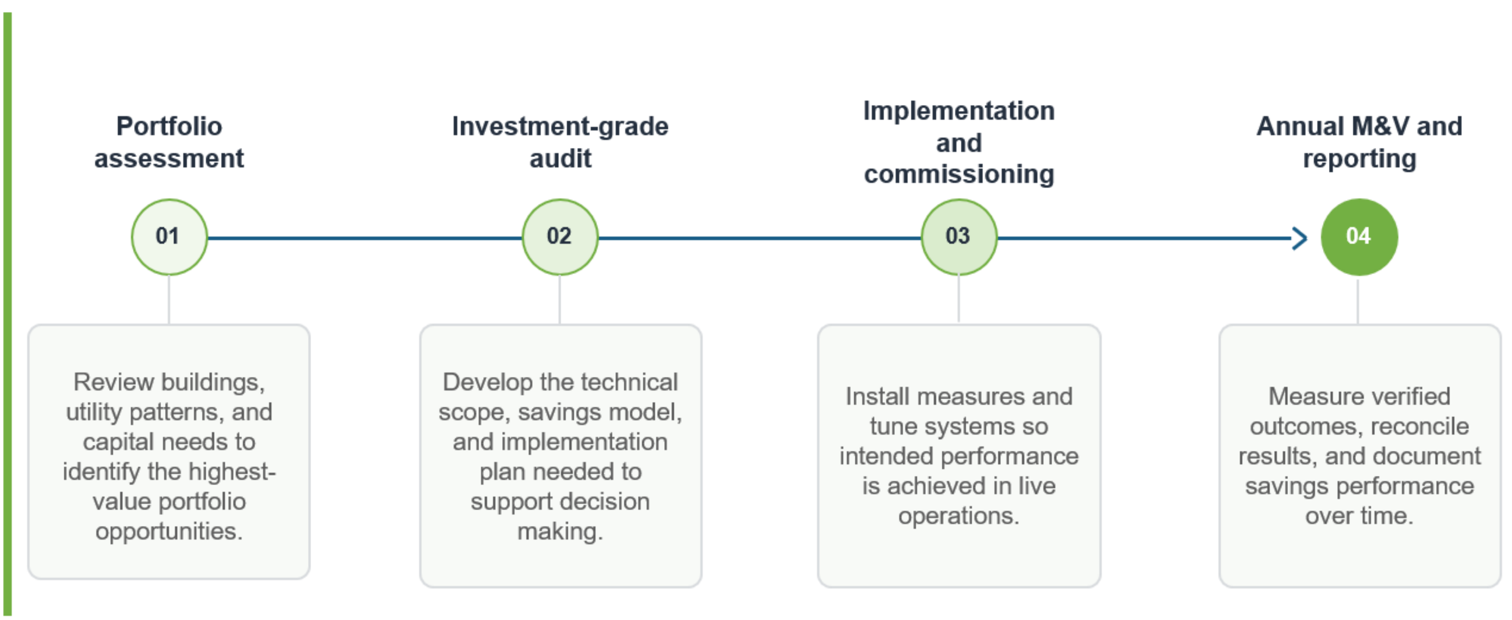

Exhibit R

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