

# THE VIRTUOUS CYCLE OF GREEN REVOLVING FUNDS



## TAKEAWAYS

- 1 Higher education is entering a new era for philanthropy. The emphasis is on investment-based, hands-on, solutions-oriented, and program-related projects. Green revolving funds, which invest in on-campus efficiency projects, are an emerging philanthropic investment strategy.
- 2 Many boards are establishing green revolving funds to stimulate progress on integrating energy efficiency, renewable energy, water conservation, cost savings, revenue generation, and financial transparency. This approach can help institutions save money and advance sustainability, while upholding their core values.
- 3 Green revolving funds represent a new donor option for either a one-time gift or a continuing giving opportunity. They can attract a wide variety of donors, from first-time givers to experienced philanthropists who value the power of compounding interest.

BY MARK ORLOWSKI  
AND MITCHELL THOMASHOW

SPEAKING AT THE CENTER FOR THE ENVIRONMENT at Catawba College, Catawba President Brien Lewis highlighted the as yet largely untapped potential of green revolving funds. Shortly thereafter, the North Carolina college received an unsolicited \$100,000 contribution. “The donor was there when we were doing the presentation and within a couple of days, there came the dollars. We didn’t even have to ask. That’s how appealing the project was.”

What is so distinctive about green revolving funds (GRFs) that they were able to inspire such unexpected generosity?



This approach to investing creates designated accounts for on-site clean energy and water conservation projects that can improve efficiency, reduce operating expenses, and lower carbon emissions. The resulting cost savings are then used to replenish the fund. As the monies are repaid, they can be redeployed to finance the next round of projects. This virtuous cycle ensures that the principal originally contributed by donors will have continuing productive impact well into the future.

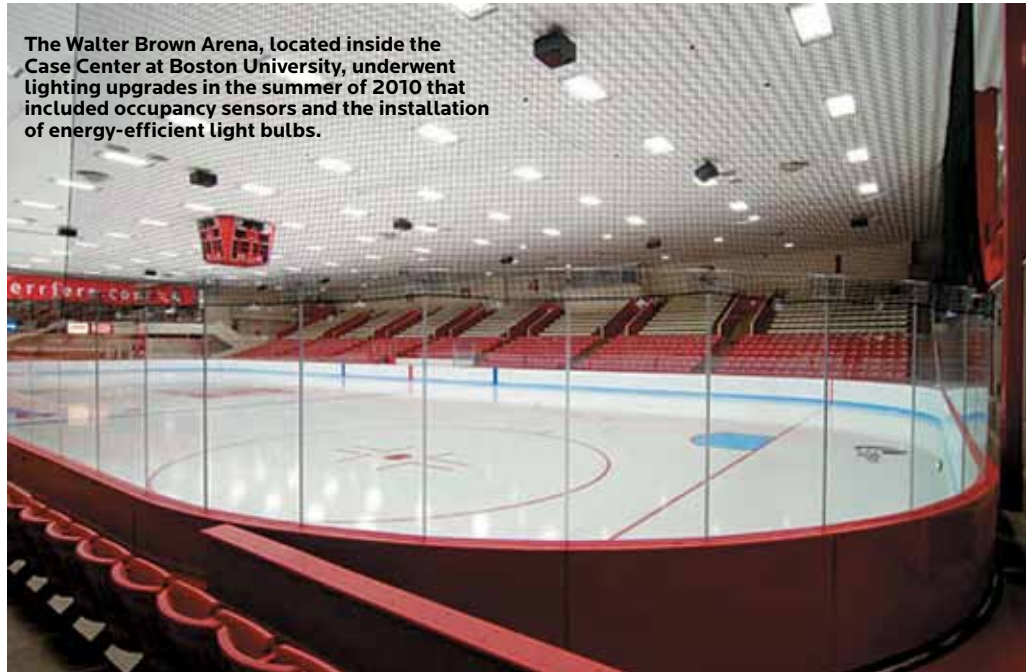
## Meeting Multiple Objectives

The organization that one of us, Mark Orłowski, founded and where he now serves as executive director, Sustainable Endowments Institute (SEI), has been working to educate organizations about the benefits of green revolving funds. A special project of Rockefeller Philanthropy Advisors, SEI is a Boston-based nonprofit with more than a decade of experience pioneering research, education, and outreach to advance resilient institutional responses to climate change. We have seen more than 125 colleges and universities use green revolving funds to help them achieve multiple objectives, including:

**Obtaining a strong return on investment.** GRFs can significantly outperform average endowment investment returns, while generating consistent results over the long term. Although the track record of green revolving funds has been the most extensive on college campuses, fundraisers and philanthropists are also taking notice and establishing GRFs at hospitals and healthcare systems, private schools, municipal agencies, and other nonprofit institutions.

In “Investing in Energy Efficiency Pays Off,” the *New York Times* (February 6, 2015) reported about the financial benefits of green revolving funds: “The idea that money is available for the taking defies economic logic. But sometimes it’s true. That’s the case with a vast opportunity that’s routinely overlooked

The Walter Brown Arena, located inside the Case Center at Boston University, underwent lighting upgrades in the summer of 2010 that included occupancy sensors and the installation of energy-efficient light bulbs.



by institutions across the country—from universities to hospitals, companies to governments. The opportunity is investing in energy efficiency.”

**Achieving funding flexibility.** In a competitive fundraising world, using this environmentally and financially sustainable model can encourage donors to help invest in building renovations and deferred maintenance. Board members, presidents, and advancement officers can adapt green revolving funds in a variety of innovative ways to meet these converging challenges. In addition to donations, other funding sources—ranging from cash reserves and endowment investments to utility rebates—offer additional options for starting or growing a green revolving fund.

**Attracting donors.** At Catawba, President Lewis is using the concept of a green revolving fund as a central philanthropic strategy. He’s excited about its appeal to younger donors and recent graduates for whom sustainability is an important issue, noting, “I think these are the students who will stay engaged with the college as alumni for generations to come.”

Lewis is also optimistic about the appeal of GRFs to donors who are intrigued by their value as investments. “It appeals to those who might not have a passion for sustainability issues in general,

but just see it as wise stewardship of financial resources. In this day and age, that’s a very appealing message to approach donors of all stripes.” Some donors may prioritize reducing carbon emissions and mitigating climate change. Others may have a frugal focus on reducing wasted energy and utility costs while generating educational benefits and local jobs.

**Preserving the institution’s core while stimulating progress.** Elizabeth Kiss, the president of Agnes Scott College just outside Atlanta, found an unlikely supporter: “We have a donor to the college who is critical of many elements of the environmental movement but very interested in financial efficiency and who believes that economic signals are the appropriate measures for environmental decisions,” she recalled. “He thought that a revolving fund was a great idea. Students would learn from it. He liked its economic realism. He liked the careful tracking and analysis.” The donor provided a small planning grant, and then he and his wife became one of the first four contributors to what is now a \$500,000 fund.

Kiss and the fund’s donors made sure that students were involved in setting up the fund and helping to decide on its implementation. Agnes Scott College is leveraging this approach as an essential component of its philanthropic efforts.

“I think what people find so appealing about a GRF,” she said, “is that it’s a gift that keeps on giving, and that at a time of great financial stress in higher education, it actually enables the college to make investments in energy efficiency that ultimately help us to focus more resources on our core mission. Donors love that.”

**Upgrading facilities and building a culture of philanthropy.** The National Association of College and University Business Officers (NACUBO) points to the huge challenge that higher education institutions face in updating their physical plants. NACUBO estimates that American colleges and universities maintain over 5-billion square feet of space, with \$6 billion to \$7 billion spent annually on energy and utilities. Confronted with the financial pressures of upgrading facilities, some colleges and universities are developing creative responses that also help forge a culture of philanthropy.

At Hampshire College in Amherst, Massachusetts, President Jonathan Lash describes how his campus was built in an era of cheap electricity and is filled with buildings that require substantial retrofits. At the same time, he’s trying to build a culture of philanthropy at Hampshire, involving current students, alumni, and board members in campus investment.

“The need for maintenance and the opportunity to green the buildings coincided in a beautiful way,” Lash said. “Investing in a green revolving fund gives us a chance to focus on old buildings that need help anyway and make them a lot better as we’re doing it. The more we are able to demonstrate a return on early projects, the more likely we are to make significant investments in greening the campus.” Similar to his colleagues, Lash is supporting direct student involvement in these projects, both for the educational value and as a way to build long-term philanthropic awareness.

## A Growing Trend

Small campuses with limited financial resources that depend significantly on tuition dollars understand the necessity of new approaches to philanthropy and campus investment. Yet green revolving funds are now prevalent at a wide range of

## Working More Efficiently

In 2007, students in an environmental studies class did an environmental audit of Denison University’s campus in Granville, Ohio. They found both issues and opportunities for the institution, which subsequently put together a taskforce on sustainability that included students and members of the faculty and staff.

Jeremy King was hired as the institution’s first sustainability coordinator in 2009.

“For a couple of years, we were in data collection mode,” said King, a Denison alumnus. “The university was already doing energy efficiency work, building to LEED standards, doing really great stuff, but we weren’t tracking data about how valuable these things were at either improving the educational experience, saving money, or saving other resources. We just really had no idea.” His office published its first annual campus sustainability report in 2010. And Denison’s board includes sustainability on the agenda at all of its meetings, with frequent updates from King.

Denison has set a target date of 2030 for reaching carbon neutrality and has done a building-by-building energy audit, examining windows, insulation, lights, heating/cooling systems, and thermostats. They’ve switched the university’s central boiler from coal to natural gas. Updating all of the lighting in their buildings, starting in the 2011–12 academic year, was a \$600,000 project that has already paid for itself in \$200,000/year savings. Denison has also been participating in the Billion Dollar Green Challenge, putting \$1.8 million into the fund and committing to growing it to \$3 million. So far, they’ve completed 63 projects on campus. With a payback of six years or less, that will leave the university with about \$500,000/year to invest in future projects.

colleges and universities of varying sizes, diverse geographic locations, and a broad spectrum of endowment wealth.

For instance, in 2013, the University of Vermont board of trustees approved a \$13-million investment in a UVM energy revolving fund, borrowing capital from the institution’s cash reserves. Rather than earning less than 2.5 percent interest on its other cash reserves, the revolving fund planned to provide a 5 percent interest rate and help the institution invest in substantial new energy efficiency retrofits. Since then, the university’s board has voted to more quickly realize savings in the operating budget by cutting the 5 percent interest payment requirement. (For more information on UVM’s fund, see a case study released by the Sustainable Endowment Institute at [GreenBillion.org/resources](http://GreenBillion.org/resources).)

Another example: George Washington University’s Green Campus Fund invested \$141,000 to upgrade the lighting in its academic center in 2010. Since completion, the project is generating \$100,000 per year in savings and has already paid for itself several times over.

## Strategic Philanthropy

Melissa Berman, president and CEO of Rockefeller Philanthropy Advisors, suggests that donors are looking at philanthropy and their resources for social change in a very different way. Donors want to be involved much earlier. They want to understand how their support will yield results. GRFs fit well into this new approach.

“Donors want to think about their financial resources very broadly,” she noted. “They are interested in awareness building, co-funding, and investing. These kinds of revolving funds offer that because you get both a financial and environmental return. Next-generation donors—for example, the millennials coming out of the financial and technology worlds—are looking for innovation and effectiveness, how their philanthropic investment will create results. They want to fund the solution, not the problem.” Berman believes that green revolving funds are a model for how to think about strategic philanthropy. “Capital campaigns will have to be purposeful and results-oriented. One way to do that is to talk about a specific initiative. Another way is to develop a pool of renewable capital.”

## From Farm to Real World

Like many institutions that are trying to reduce their carbon footprints and become greener, the University of New Hampshire (UNH) took aim at lighting first. Replacing fluorescent lighting with LED bulbs and motion-sensor technology may be the low-hanging fruit of sustainability, but their impact can be substantial.

The institution has reduced its greenhouse gas emissions by more than 30 percent, with a goal of a 50 percent reduction by the year 2020, thanks to a new cogeneration heat and power plant (which provides power more efficiently), a \$49 million EcoLine landfill gas project (to replace natural gas with landfill gas through a 12-mile pipeline), and a revolving energy efficiency fund (EEF). An initial fund of \$600,000 has led to \$1.3 million in energy savings.

Matt O'Keefe, director of energy and utilities, has bigger projects in mind, as well. Workers at a UNH cow barn facility are already capturing the cow waste to use as fertilizer, but would like to use the methane gas to provide heat and steam for some of the institution's facilities. O'Keefe wants to pair that with a wood waste project. Woodlands on the property are already being harvested, but while the bottom one-third of the trees is considered revenue-generating, the top two-thirds typically get chipped up and taken away. The combined power of the methane and wood waste would help UNH get closer to its sustainability goals. UNH's board has been extremely supportive of these efforts, said O'Keefe.

The Jessie Ball duPont Fund determined that the financing model of small private colleges was the major concern of their grantees. They considered how they could provide the most practical and constructive help for those colleges. Sherry P. Magill, the president, explains that the GRF model was the perfect funding approach. By providing a seed challenge grant, they could assist college presidents by initiating these renewable funds. "We started with a webinar on revolving loan funds," said Magill. "We awarded seven or eight grants right out of the box. We had so many college presidents tell us that they were easily able to find the appropriate matching funds." The Jessie Ball duPont Fund is the first foundation to establish a grant-making program dedicated to helping create green revolving funds as a way of multiplying the impact of their initial funding.

### Questions for Boards

Jim Collins, a plenary speaker at AGB's 2015 National Conference on Trusteeship, succinctly summarized the challenge, as quoted in the January/February 2015 issue of *Trusteeship*: "Change is accelerating, uncertainty is permanent, and chaos is common." To thrive in chaos, Collins advises boards to "hold values; change practices."

In setting the course for values-based institutional stewardship, boards need to recognize and adapt to a new era of philanthropy. James Michael Langley underlined this point in another *Trusteeship* article (July/August 2014): "Cultures of philanthropy can no longer be cultivated by asking alumni to merely 'come back, look back, and give back.' They will need to be built on agency-oriented cases for support." This means learning from the talents of alumni and delivering "something of great value" to their immediate community and overall society.

In considering GRF options, several key questions can help discern a clear path of action:

1. How would our institution's core values be preserved and enhanced by creating a green revolving fund? To support our educational mission, do we want to include opportunities for student participation in GRF implementation and oversight?
2. Has our institution calculated, using energy audit data, what energy savings could be realized by investing in energy efficiency, and what would be the return on investment? In other words, how much money is our

institution currently wasting annually on excess energy consumption, and what would be the ROI on investing in efficiency?

3. In the last five years, how much money have we put into energy efficiency? How much have we saved from these efficiency measures? If the answer is not easily apparent, could a GRF help to increase awareness of the benefits and importance of energy efficiency?
4. How are we currently securing capital to close the gap on deferred maintenance? Could a GRF offer compelling giving opportunities to improve our energy efficiency as well as reduce our deferred-maintenance backlog?
5. Should our institution consider creating a GRF through an investment from the endowment or from cash reserves? Alternatively, do we want to rely on securing new donor contributions for the green revolving fund as part of a capital campaign or current development efforts?

As Rockefeller Philanthropy Advisors' Melissa Berman emphasized, many donors now prioritize support for investment-based, hands-on, solutions-oriented, program-related projects. Green revolving funds can enable institutions to establish a new framework for integrating and achieving all of those objectives. ■

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**AUTHOR:** Mark Orłowski is the founder and executive director of The Sustainable Endowments Institute, a special project of Rockefeller Philanthropy Advisors. Mitchell Thomashow is president emeritus of Unity College.

**T'SHIP LINKS:** Jim Collins, "What Does Change Mean for Higher Education?" January/February 2015. James Michael Langley, "Cultivating a Culture of Philanthropy: New Approaches to New Realities." July/August 2014.

**OTHER RESOURCES:** David Bornstein, "Investing in Energy Efficiency Pays Off." *The New York Times*, February 6, 2015. The Sustainable Endowments Institute offers tools such as "Green Revolving Funds: A Guide to Implementation & Management" and the cloud-based web platform, "Green Revolving Investment Tracking System (GRITS) at [www.endowmentinstitute.org](http://www.endowmentinstitute.org).