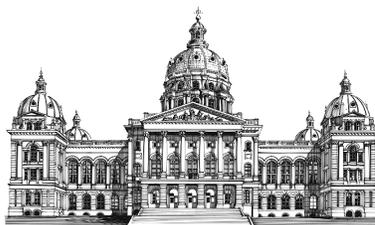

Iowa Legislative Fiscal Bureau

Dennis Prouty
(515) 281-5279
FAX 281-8451



State Capitol
Des Moines, IA 50319
July 9, 2001

Iowa's Energy Conservation Financing Programs

ISSUE

The purpose of this **Issue Review** is to provide background information on one of the State's initiatives for financing energy conservation improvements to facilities, and the accomplishments of the programs. It also includes a discussion regarding the recent statute change that affects programs, and a proposal introduced during the 2001 Legislative Session that failed to pass, but received consideration and discussion.

AFFECTED AGENCIES

Department of Natural Resources

CODE AUTHORITY

Chapter 473, Code of Iowa (Energy Development and Conservation)
Section 7D.34, Code of Iowa (Energy Conservation Lease-Purchase)
565, Chapter 6.473, Iowa Administrative Code (Energy Bank Program)

BACKGROUND

The Department of Natural Resources (DNR) administers various programs that provide energy conservation improvements to facilities of State and local governments and certain non-profit organizations. The programs include:

- State of Iowa Facilities Improvement Corporation (SIFIC)
- Iowa Energy Bank Program
- Rebuild Iowa Program

The programs provide incentives and alternative means of financing energy conservation improvements that are in accordance with the State's energy efficiency goal. These programs are intended to serve State facilities, schools, hospitals, local governments, private schools and colleges, and other non-profit organizations. Section 473.3, Code of Iowa, sets forth the State's energy efficiency goal, stating:

The goal of this State is to more efficiently utilize energy resources, especially those that are nonrenewable or that have negative environmental impacts, in order to

enhance the economy of the State and to decrease the State's dependence on energy resources from outside the State by reducing the amount of energy used. This goal is to be implemented through the development of programs that promote energy efficiency and energy conservation by all Iowans, through the development and enhancement of an energy efficiency industry, through the development of indigenous energy resources that are economically and environmentally viable, and through the development and implementation of effective public information and education programs.

State government shall be a model and testing ground for the use of energy efficiency systems.

CURRENT PROGRAMS

State of Iowa Facilities Improvement Corporation (SIFIC)

The State of Iowa Facilities Improvement Corporation is a non-profit corporation to facilitate the use of lease-purchase financing for energy management improvements by State agencies.

The purpose of the SIFIC Program is to implement building improvements that reduce the utility expenses of State agencies. In return, the utility savings are used to pay the lease costs associated with financing improvements. The Corporation competitively bids financing for improvements; however, for smaller-sized projects where competitive financing may be difficult to arrange, the Department of Natural Resources uses an "umbrella financing" agreement with Wells Fargo for financing improvements. The Corporation also contracts with an engineering firm, which is competitively selected, to conduct engineering analyses of facilities where improvements are being considered.

State agencies that participate in the lease-purchase program receive engineering analyses of their facilities from an engineering consultant. Staff from the Corporation review the engineer's recommendations for building improvements and work with agencies to select specific improvements to be implemented. Once the design work is completed by the engineer, the work is put out for bid.

The engineering analysis provides the projected utility cost savings associated with proposed improvements and compares the savings with the cost of the improvements. Prior to FY 2002, the improvements were required to have a payback of at least six years. During the 2001 Legislative Session, the Legislature passed Senate File 462 and eliminated the six year pay-back requirement. The legislation provides that improvements are still required to be cost-effective, which enables the Corporation to fund more extensive projects with a longer return on investment.

The SIFIC assists clients in monitoring facilities to determine energy savings following the installation of the improvements. The contractor is not required to guarantee the savings; however, the cost savings of all projects implemented through the SIFIC Program since its inception have exceeded the cost of improvements. **Attachment 1** shows the dollar amount of the projects implemented through the SIFIC Program from FY 1988 through FY 2001 and includes the cumulative utility cost savings.

Since FY 1988, there have been a total of \$31.9 million in projects implemented through the SIFIC Program. The Department of Natural Resources reports that this has resulted in a total of \$53.6 million in energy cost savings for State agencies through June 30, 2001. The Department also reports that there will be an estimated annual savings of \$6.9 million associated with the improvements beyond FY 2001.

The operating cost for the SIFIC Program is paid through fees generally included within the cost of the financing agreement. The fees cover the cost of the DNR staff for the SIFIC Program, and the engineering and financial consulting services. **Attachment 2** lists the various fees for the SIFIC Program.

Iowa Energy Bank Program

The Iowa Energy Bank Program operates in a similar manner as the SIFIC Program in that it utilizes energy savings to repay financing for energy conservation improvements. However, this Program is targeted to public and private schools, area education agencies, community colleges, hospitals, private colleges, and local government. Generally, there are three stages of the Energy Bank Program:

1. A preliminary energy assessment is completed for the facility in need of improvement. For large or multiple facilities the assessment is in the form of an energy audit. For smaller facilities, a less complex assessment (energy survey) can be completed using DNR staff from the Energy Bank Program.
2. An engineering analysis of the facility is completed by a pre-qualified consultant. The DNR maintains a list for clients of qualified engineering and architectural firms. The client may either pay for the engineering analysis directly or receive a short-term interest free loan through the DNR. Clients may incorporate the loan into the financing agreement.
3. The client may either choose to fund the energy improvements directly or finance the improvements through the Energy Bank Program utilizing a lease-purchase agreement or a capital loan note, with the interest rate negotiated by the DNR. Prior to FY 2002, the energy improvements were required to have a six-year payback. The passage of SF 462 last session eliminated this requirement and established a requirement that improvements be cost-effective.

The DNR charges a program service fee to schools and local governments that is to be paid within six months after completion of an energy audit. The fee is used to cover the administrative expenses of the Department for the Energy Bank Program. The fee can be set on a sliding scale based on the total square footage of each building in the Program, or on a case-by-case basis as agreed to in advance by the applicant and the Department. **Attachment 2** lists the various fees for the Energy Bank Program.

Attachment 3 shows the total dollar amount of the projects implemented through the Energy Bank Program from FY 1989 through FY 2001, and the cumulative utility cost savings. Since FY 1989, there has been a total of \$109.7 million in projects implemented through the Program. The Department estimates that through June 30, 2001, this has resulted in a total of \$78.4 million in energy cost savings for local entities. The Department also reports there will be an estimated annual savings of \$12.1 million associated with the improvements beyond FY 2001.

Rebuild Iowa Program

The Rebuild Iowa Program was established by the DNR through a grant received from the U.S. Department of Energy's Rebuild America Program. The Program is designed to provide seed money for up to three years to participating communities to fund a local coordinator or coordinators. The coordinator(s) works with the public and private sector to identify methods of reducing energy consumption within the community. The community may use the Iowa Energy Bank Program to

finance improvements for publicly-owned facilities that meet Program requirements or may use an alternative means of financing.

Since 1997, there are 15 governmental entities that are or have participated in the Rebuild Iowa Program. The communities are required to re-apply each year to continue program funding. The following table lists each entities' grants awarded through the Rebuild Iowa Program through June 30, 2001.

**Rebuild Iowa Program
Grant Expenditures Through June 30, 2001**

Akron	\$	34,878
Cedar Falls		53,504
Centerville		5,800
Des Moines		60,332
Hamilton County		30,130
Hancock County		28,533
Harlan		22,434
Le Mars		7,050
Muscatine		61,211
Pella		11,300
Sioux Center		18,702
Wapello County		28,093
Waterloo		20,032
Webster City		46,914
Winnebago & Worth Counties		26,830
Total	\$	<u>455,743</u>

Attachment 4 shows the total dollar amount of projects implemented in association with the Rebuild Iowa Program coordinators from FY 1997 through FY 2001, and the cumulative utility cost savings. Since FY 1997, there has been a total of \$7.9 million in projects implemented, and the Department estimates this resulted in a total of \$2.7 million in energy cost savings for local entities. The Department estimates these improvements will have an annual savings of \$813,000 beyond FY 2001.

2001 LEGISLATIVE SESSION ENERGY IMPROVEMENT PROPOSALS

Several proposals were introduced during the 2001 Legislative Session that related to energy conservation improvements to tax-supported facilities.

Senate File 371

This Bill would have established a school energy conservation program to allow school corporations (school districts, area education agencies, and community colleges) to implement energy conservation measures involving training programs and school facility improvements by contracting with a service provider that guarantees energy or operational savings.

The Bill would have allowed school corporations to enter into a guaranteed energy cost-savings contract with a qualified provider. The annual energy cost savings would be required to meet or exceed the amortized cost of the energy improvements. The provider would conduct energy audits

and analyses, install the recommended energy improvements, and monitor the energy savings for the life of the contract. Schools could enter into contracts for a period of up to 20 years. Under the guarantee, the provider would be liable for any annual cost savings shortfall.

The Bill also defined a qualified provider as “a person or business whose employees are experienced and trained in the design, implementation, or installation of energy conservation measures. The minimum training required for any such person or employee under this Chapter shall be the satisfactory completion of at least 40 hours of course instruction dealing with energy conservation measures.”

Senate File 371 failed to pass the Senate Education Committee. In addition, there were three other legislative proposals introduced during the 2001 Legislative Session that were essentially variations of SF 371. These bills were House Study Bill 202, House Study Bill 214, and Senate Study Bill 1189.

The significant differences between Senate File 371 and the Iowa Energy Bank Program include:

- Senate File 371 allowed school districts, area education agencies, and community colleges to enter into 20-year financing arrangements for energy improvements to their facilities. Existing law, at the time SF 371 was being considered, provides that improvements through the Iowa Energy Bank Program have a payback of six years. However, financing could exceed six years.
- Senate File 371 allowed for a guaranteed energy cost savings with the implementation of the providers recommended improvements. Cost savings through the Iowa Energy Bank Program generally are not guaranteed; however, a guarantee can be provided for an additional cost.
- Senate File 371 defined a qualified provider and requires that each employee of the provider successfully complete at least 40 hours of course instruction dealing with energy conservation measures. The Iowa Energy Bank Program is administered by DNR staff who maintain a list of qualified analysts for assessments, design, engineering, financing, and construction. The DNR bids the financing and construction separately from engineering services to prevent the analysts conducting the engineering assessment from having a financial interest in the project.
- Senate File 371 allowed a school corporation to enter into a single contract with a qualified provider who would provide all related services including the energy audit, data collection, design and installation of equipment, and financing. The Iowa Energy Bank Program permits schools to choose from a list of pre-qualified engineers and architects for audit and design services. The installation of the equipment or improvements is placed out for competitive bid. For financing, the participants in the Iowa Energy Bank Program have the option of utilizing local financial institutions or the umbrella financing agreement with Wells Fargo.

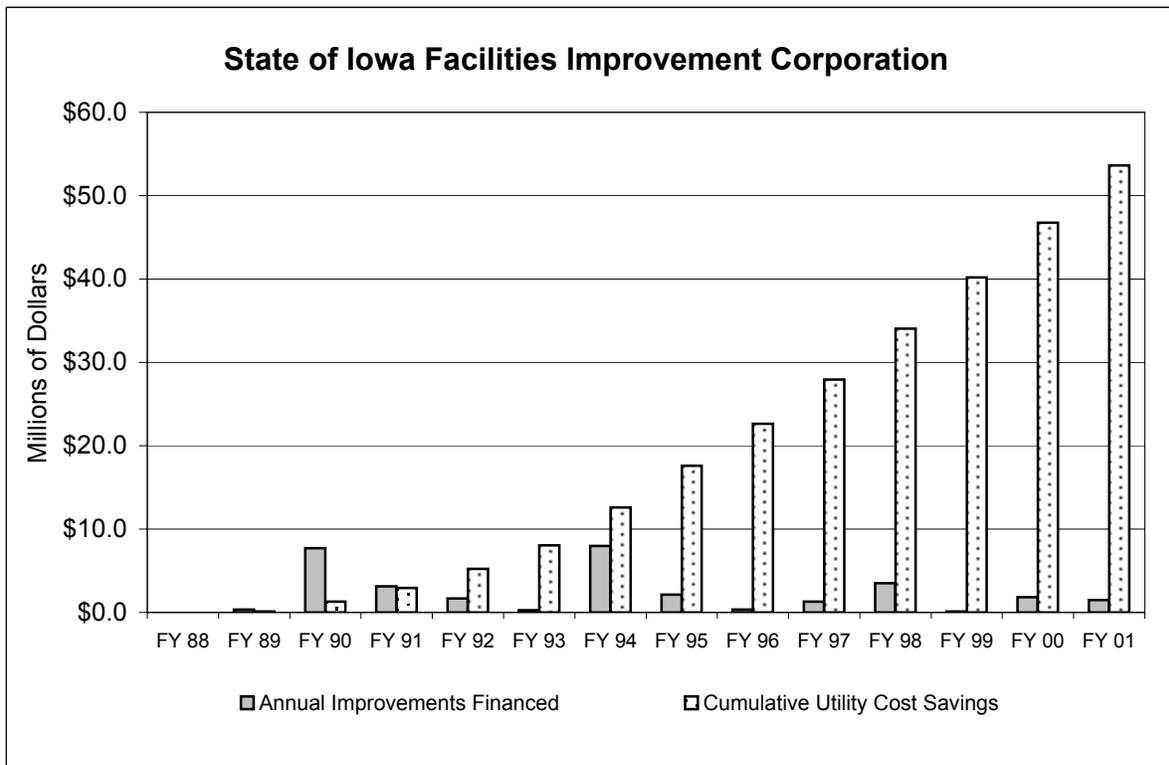
Senate File 462

Senate File 462 was passed by the Legislature and signed into law by the Governor on April 23, 2001. The Act eliminated the six-year payback requirement for financed energy improvements under SIFIC and the Iowa Energy Bank Programs. Under the new law, the energy improvements are only required to be cost effective.

STAFF CONTACT: David Reynolds (1-6934)

State of Iowa Facilities Improvement Corporation

	Improvements Financed		Utility Cost Savings
	Annual	Cumulative	Cumulative
FY 1988	\$ 6,933	\$ 6,933	\$ 540
FY 1989	350,428	357,361	98,382
FY 1990	7,716,634	8,073,995	1,314,951
FY 1991	3,147,123	11,221,118	2,937,372
FY 1992	1,696,756	12,917,874	5,244,650
FY 1993	282,553	13,200,427	8,059,195
FY 1994	7,973,004	21,173,431	12,603,783
FY 1995	2,154,643	23,328,074	17,598,546
FY 1996	348,990	23,677,064	22,650,027
FY 1997	1,293,865	24,970,929	27,935,205
FY 1998	3,513,292	28,484,221	34,044,323
FY 1999	131,007	28,615,228	40,182,460
FY 2000	1,821,086	30,436,314	46,747,952
FY 2001	1,487,096	31,923,410	53,629,468
Total	\$ 31,923,410		



Source: Department of Natural Resources

State of Iowa Facilities Improvement Corporation

Program Services and Fees

The State of Iowa Facility Improvement Corporation (SIFIC) Program, is a program whose ongoing efforts are to make Iowa's public facilities energy efficient and cost effective. Costs associated with managing this program include start-up costs, facilitating the lease financing process, engineering expertise, and staff costs for program management. To cover these costs, fees are assessed depending upon which services are required, and are as listed below.

Lease-purchase (large) Projects:

Base Fee: Four percent (4%) of total costs for Energy Management Improvements. The Base Fee is intended to recover program start-up costs and day-to-day operating expenses.

Lease Financing Process and Project Management Services: \$3,000. This fee includes, but is not limited to:

- Preparation of notification forms for the State's Legislative Fiscal Bureau;
- Coordination of the Fiscal Team which secures financial provider and prepares necessary documents;
- Facilitation of the lease document signing process;
- Coordination of project services;
- Monitoring of bill payment and escrow account activity; and,
- Assisting with rebate applications, if applicable.

Engineering Services: The fee for engineering services is broken down as follows:

- Technical review of engineering analyses -
 - Small study (five EMIs or less) **\$1,250**
 - Large study (greater than five EMIs) **\$2,500**
- Update previously completed engineering analyses -
 - Small study (five EMIs or less) **\$2,500**
 - Large study (greater than five EMIs) **\$5,000**
- Complete new engineering analyses in-house -
 - Small study (less than ten EMIs) **\$10,000**

Note: engineering services for studies with ten EMIs or more will be contracted to the SIFIC Program engineering firm.

- Contracted engineering services -

The cost for an engineering analysis will be passed on to the participating client without assessed fee, and a six-month, interest-free loan is provided to cover the cost of an engineering analysis; this loan can be rolled into the lease financing for the project:

Monitoring work progress of contractor (meetings at facility, process payments to contractor, etc.)	\$2,000
Review of contractor-completed study	\$2,500

Capital Fund – Small Projects (less than \$100,000):

Base Fee: There will be no base fee for these small projects; however, the loans for these small projects will be subject to interest, at a rate to be determined by the Treasurer's office at loan closure.

Project Management Services: \$500 (up to \$50,000), or \$1,000 (\$50,001 – 100,000). This fee includes, but is not limited to:

- Preparation of notification forms for the State's Legislative Fiscal Bureau (for projects over \$50,000)
- Facilitation of the loan document signing process;
- Coordination of project services;
- Monitoring of bill payment and Capital Fund activity; and,
- Assisting with rebate applications, if applicable.

Engineering Services:

- For projects requiring little or no engineering services, no fee will be assessed;
- For projects requiring engineering services, fees will be assessed according to the above schedule for engineering services.

Optional Services:

The following services are optional, but can be provided either by DNR staff or the SIFIC Program engineering firm. Costs and/or fees for these services will be negotiated as necessary. The optional services include, but are not limited to:

- EMI design;
- Construction management;
- Monthly energy accounting of utility bills to verify savings; and,
- On-site monitoring visits.

If you have any questions, please contact Dan Lane at (515) 281-6696, or Jo Shea at (515) 242-5852.

The Iowa Energy Bank

Services Provided by the Department:

- 1) **Identification of Energy Efficiency Potential**
 - a) Walk-through Scoping Audit -----
 - b) Utility Bill Analysis -----
 - c) Creation of Building Energy Use Index -----
 - d) Determine Level of Analysis Needed -----

- 2) **Program Marketing**
 - a) Site Visits to Potential Clients -----
 - b) Presentations to Administration & Boards -----
 - c) Promotional Articles, Brochures, Websites -----
 - d) Administrative/Oversight Costs -----

- 3) **Solicitation of Proposals for Energy Analyses**
 - a) Development of Request for Proposals (RFP) -----
 - b) Issuance of RFP to List of Qualified Analysts -----
 - c) RFP Review and Assessment – Tabulation of Costs -----
 - d) Providing Direction in Interview Process of Prospective Analysts -----
 - e) Initiating Contracts between Analyst and Client -----

- 4) **Secondary Review of Completed Energy Analyses – (Iowa Administrative Code Requirement)**
 - a) Secondary Technical Reviews conducted by Iowa State University -----
 - b) In-House Engineer Energy Analysis Reviews -----

- 5) **Financing and Implementation**
 - a) Administration of Board Presentation of Analysis -----
 - b) Assistance in Coordination of Financing -----

**“True”
Program
Administrative
Costs to
Department**

↓
\$200/Building \$200/Building \$200/Building \$100/Building
\$150/Client \$50/Client \$50/Client \$150/Client
\$150/Building \$100/Building \$100/Building
\$120/Building \$200/Building
\$400/Client \$250/Client
\$130/Building \$250/Building
TOTAL = \$2,800

Program Cost

Minimum = \$750
and

- ◆ \$0.02 per sq.ft./per 1st building above 37,500 sq.ft. and
- ◆ \$0.015 per sq.ft./per additional building(s)
- ◆ \$1,400 for Wind Turbines

For more information about this and other energy-management programs administered by the Iowa Department of Natural Resources, visit:

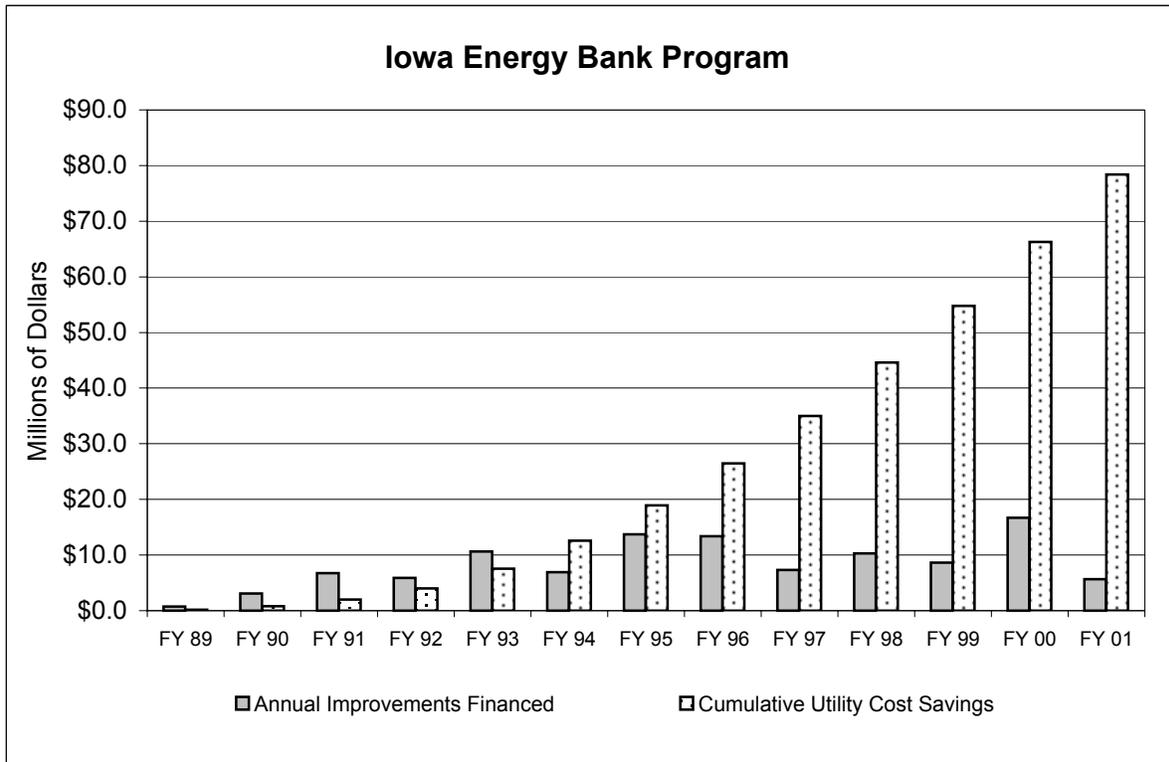
<http://www.state.ia.us/dnr/energy>



Saving Dollars & Making Sense
 Saving Dollars & Making Sense

Iowa Energy Bank Program

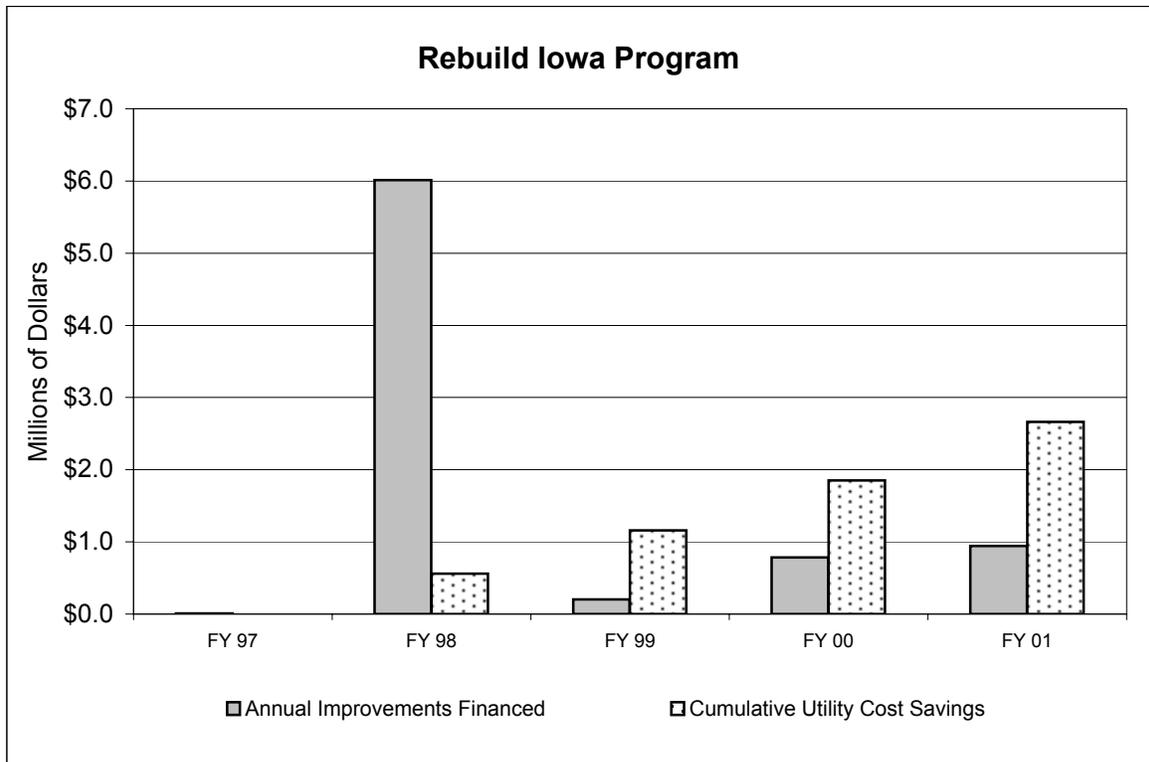
	Improvements Financed		Utility Cost Savings
	Annual	Cumulative	Cumulative
FY 1989	\$ 767,431	\$ 767,431	\$ 153,462
FY 1990	3,111,362	3,878,793	787,216
FY 1991	6,766,220	10,645,013	2,021,995
FY 1992	5,861,294	16,506,307	3,986,891
FY 1993	10,639,000	27,145,307	7,568,012
FY 1994	6,918,444	34,063,751	12,552,866
FY 1995	13,737,233	47,800,984	18,919,521
FY 1996	13,383,801	61,184,785	26,481,227
FY 1997	7,299,280	68,484,065	34,994,861
FY 1998	10,309,551	78,793,616	44,592,677
FY 1999	8,611,702	87,405,318	54,769,292
FY 2000	16,678,214	104,083,532	66,280,969
FY 2001	5,656,385	109,739,917	78,414,103
Total	\$ 109,739,917		



Source: Department of Natural Resources

Rebuild Iowa Program

	Improvements Financed		Utility Cost Savings Cumulative
	Annual	Cumulative	
FY 1997	\$ 8,100	\$ 8,100	\$ 875
FY 1998	6,011,349	6,019,449	560,835
FY 1999	204,277	6,223,726	1,158,384
FY 2000	785,685	7,009,411	1,850,659
FY 2001	942,695	7,952,106	2,663,651
Total	\$ 7,952,106		



Source: Department of Natural Resources