

SB2233

WRITTEN ONLY

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
ON
SENATE BILL NO. 2233

January 28, 2010

RELATING TO ENERGY

Senate Bill No. 2233 amends Section 36-41, Hawaii Revised Statutes, to provide that agencies that perform energy efficiency retrofitting shall continue to receive budget appropriations for energy expenditures at an amount that shall not fall below the pre-retrofitting energy budget but shall rise in proportion to the agency's overall budget for the duration of the applicable performance contract or project payment term.

We oppose this bill. While we support energy saving measures, the proposed amendment will limit the flexibility of the Executive Branch to review program funding requirements and allocate funding to programs based on statewide priorities within available resources. The proposed amendment also would not provide any flexibility to account for any adverse fiscal conditions and will obligate future legislatures to provide funding without regard to appropriateness.

LINDA LINGLE
GOVERNOR



RUSS K. SAITO
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TESTIMONY
OF
RUSS K. SAITO, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
SENATE COMMITTEE
ON
ENERGY AND ENVIRONMENT
ON
January 28, 2010
S.B. No. 2233

RELATING TO ENERGY

Chair Gabbard and members of the Committee, thank you for the opportunity to testify on S.B. No. 2233.

The Department of Accounting and General Services (DAGS) opposes this bill. It will facilitate the implementation of energy savings performance contracting (ESPC) projects that: reduce energy consumption; increase operational efficiencies; and use annual energy savings to pay for 3rd party, municipal lease financing of building improvements that will result in guaranteed annual energy savings by an energy services company (ESCO). In implementing an ESPC project, only as many improvements as can be paid out of the agency's operating budget can be implemented. Thus, it is desirable to have a budget that allows for this,

However, the State's economy and revenue streams will at times dictate that budget cuts are necessary to keep the State solvent. Because of this, the language of Section 36-41(a) should

retain the word “may”, and not replace it with the word “shall”. The ability of the Administration to reduce spending where necessary in a bad economy must be preserved.

Thank you for the opportunity to testify on this matter.

Testimony to the Senate Committee on Energy and Environment
 Thursday, Jan. 28, 3 p.m., Room 225 – SB 2233 Relating to Energy
 By Jay Johnson, NORESKO

Aloha Chair Gabbard, Vice Chair English, and members of the committee,

Noresko offers comments on SB 2233 - Relating to Energy, but defers to the Dept. of Accounting and General Services (DAGS) for further clarity.

The State of Hawaii has favorable legislation for Energy Savings Performance Contracting for public facilities as described in HRS 36-41. Energy Savings Performance Contracting (ESPC) has been around since the early 1980's and has been used by public agencies to procure over \$1 billion in facility solutions. The Hawaii Department of Accounting and General Services (DAGS) approved a \$34 million ESPC project for the 10 buildings in the State Capital District with NORESKO. Buildings include: Kalanimoku, Keelikolani, Kekauloahi, Kekuanaoa, Keoni Ana, Kinau Hale, Liliuokalani, No. 1 Capitol District (Hemmeter), State Capitol, Leiopapa-A-Kamehameha. Some key benefits from the DAGS ESPC project at State Capital District are:

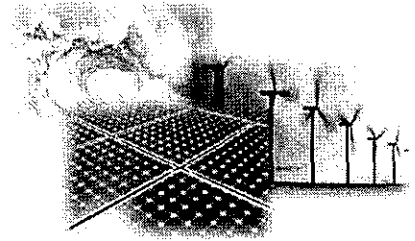
- Increase energy efficiency and building performance by reducing energy usage and demand by 30%
- Reduce life cycle costs of operating the buildings including maintenance cost, equipment service life, water usage, solid waste generation, etc.
- Improve indoor environmental quality for occupants
- Address the deferred repair and maintenance backlog of projects
- Leverage available annual cash flow from Energy Savings to address facility upgrades with out additional CIP funds
- Create 902 jobs (Electrical, mechanical, controls, management, maintenance, plumbing. Etc.).
- Create \$1.5 million in State Tax Revenue in FY2010 and FY2011 with an additional \$1.7 million over 20 years.

The traditional practice to fund ESPC projects is to use the energy savings created from the energy conservation measures to pay the Lease Purchase Agreement and any associated cost for O&M services and measurement and verification cost. The savings are guaranteed to cover 100% of the program cost on an annual basis or the Energy Service Company (ESCO) will make up any shortage. The DAGS project was funded using a mixture of \$22 million in CIP Bonds and a \$12.4 million Lease Purchase Financing. This hybrid funding approach was needed due to the underfunding situation of \$2 million annually with the DAGS energy budget. Had all of the utility savings from this project been available, we could have funded a \$40+ million performance contract without any CIP Bond funds. Most other state agencies do not have CIP Bonds available to help fund the gap created when the energy budget appropriation is not held at per-performance contracting levels.

Other state agencies are interested in entering into energy performance contracts but are hesitant to proceed unless they have an assurance that they will continue to receive budget appropriations for energy expenditures in an amount that shall not fall below their per-performance contract budget. It is the savings from the implementation of the energy conservation measures that provide the funding for the Lease Purchase Agreement.

NORESKO feels this bill will help DAGS and other state agencies implement energy performance contracts in Hawaii at a time when operating budgets are being reduced, utility cost are rising and the public desires to reduce green house gases. We defer to the state on the most feasible approach to achieving energy efficiency and will adapt to the needs of the departments that are interested in moving forward on the energy performance contracting model developed by DAGS.

Mahalo for the opportunity to comment.



SENATE COMMITTEE ON ENERGY AND ENVIRONMENT

January 28, 2010, 3:00 P.M.

Room 225

(Testimony is 1 page long)

TESTIMONY IN SUPPORT OF SB 2233

Chair Gabbard and members of the Committee:

The Blue Planet Foundation supports Senate Bill 2233, a measure which is a simple one-word amendment to ensure that state agencies continue to receive their budget appropriation for energy expenditures while undergoing energy efficiency improvements. This change should make it easier for agencies to enter into performance-based contracts where the efficiency investments are paid off through the energy savings over time.

This is a simple amendment to remove another barrier to energy efficiency financing for state agencies.

Thank you for the opportunity to testify.