NEIL ABERCROMBIE
GOVERNOR

BRUCE A. COPPA
Comptroller

RYAN OKAHARA
Deputy Comptroller

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING
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TESTIMONY
OF
BRUCE A. COPPA, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
HOUSE COMMITTEE
ON
ENERGY & ENVIRONMENTAL PROTECTION
ON
February 1, 2011

H.B. 1366

RELATING TO ENERGY

Chair Morita and members of the Committee, thank you for the opportunity to testify on H.B. 1366.

The Department of Accounting and General Services (DAGS) supports H.B. 1366 because its intent is to ensure governmental agencies pursuing "third-party financing" for the implementation of energy savings performance contracting projects will have a commitment to appropriate adequate annual operating budget for that purpose. However DAGS will defer to the Department of Budget and Finance on State fiscal matters.

Thank you for the opportunity to testify on this matter.

NEIL ABERCROMBIE
GOVERNOR

RICHARD C.LIM
INTERIM DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
RICHARD C. LIM
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON
ENERGY & ENVIRONMENTAL PROTECTION
Tuesday, February 1, 2011
8:00 a.m.
State Capitol, Conference Room 325

in consideration of

HB 1366
RELATING TO ENERGY.

Chair Morita, Vice Chair Coffman, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) supports HB1366 which ensures that agencies that enter into energy performance contracts shall continue to receive budget appropriations for energy expenditures in an amount that shall not fall below the pre-performance contract budget.

This bill amends Section 36-41(a), Hawaii Revised Statutes, which currently creates uncertainty and risk for agencies that enter into energy performance contracts, by changing the statute's language from permissive to mandatory. The result would be removing uncertainty for state agencies by clarifying that agencies performing energy efficiency retrofitting must continue to receive budget appropriations for energy expenditures at an amount that does not fall below the pre-retrofitting energy budget.

Third party lending institutions generally finance energy performance contracts. The energy cost savings generated by the energy and water efficiency retrofits are commonly used to pay off the original investment, plus financing and maintenance costs, over the term of the contract. The comprehensive approach of energy performance contracts will maximize the capture of savings and provide financial leverage to include additional savings measures. In addition, state agencies will have the availability of alternative financing to address deferred maintenance issues without capital improvement project or bond financing.

Reducing uncertainty in the statute's language will encourage the use of alternative financing for energy efficiency retrofitting, water savings measures, and renewable energy. SB189 will have a positive impact on achieving the Hawaii Clean Energy Initiative's goal of 70% clean energy by 2030, that is 30% energy efficiency and 40% renewable energy.

Thank you for the opportunity to testify on this bill.

WRITTEN ONLY

TESTIMONY BY KALBERT K. YOUNG
INTERIM DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON ENERGY AND
ENVIRONMENTAL PROTECTION
ON
HOUSE BILL NO. 1366

February 1, 2011

RELATING TO ENERGY

House Bill No. 1366 changes the language for agencies that enter into energy performance contracts from "may" to "shall" receive budget appropriations for energy expenditures at an amount that does not fall below the pre-retrofitting energy budget.

The Department of Budget and Finance supports the intent of the bill; however, we believe the bill is unnecessary. Agencies currently receive appropriations for energy expenditures at an amount that does not fall below the pre-performance contract budgeted amount.

NORESCO

3375 Koapaka Street, Suite F220-26, Honolulu, HI 96819• www.noresco.com

Testimony to the House Committee on Energy and Environmental Protection
Tuesday, Feb. 1, 8 a.m., Room 325 - HB 1366 Relating to Energy
By Jay Johnson, NORESCO

Aloha Chair Morita, Vice Chair Coffman, and members of the committee,

Noresco supports HB 1366 - Relating to Energy, but defers to the Dept. of Accounting and General Services (DAGS) for further clarity. We also propose an amendment.

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 NORESCO. Buildings include: Kalanimoku, Keelikolani, Kekauluohi, 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.

Nationally the most common source of funding ESPC projects for State and local government is a Tax Exempt Lease Purchase (TELP) Agreement. Five of the Hawaii Health System Corporation hospitals and the Department of Accounting and General Services (DAGS) have used TELP financing for ESPC projects on the islands. The savings from the solutions provided in the ESPC project provide the cash flow to fund the TELP payments and are guaranteed to cover 100% of the program cost on an annual basis or the Energy Service Company (ESCO) makes up any shortage.

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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, DAGS 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 pre-performance contracting levels.

Currently State Agencies do not have a guarantee that the energy savings from an ESPC project will be available to make these payments. Changing the word "MAY" to "SHALL" will ensure the utility budget will be held whole allowing the agency to use the savings to make the TELP payment for the term of the contract. Without this change some agencies are reluctant to enter into an ESPC project which typically saves 25% to 45% of the annual utility cost by implementing energy conservation/efficiency and renewable energy solutions.

<u>Proposed Amendments: Clarification on the 20-year term of the contract:</u>

The existing language of a 20-year term does not state if it is for the performance period which follows the construction/installation of the energy conservation measures or if it includes the construction period. Typically the agency does not incur costs during the construction period and payments begin following the completion of construction. By clarifying the term to reflect the performance period, following completion of construction, the agencies can obtain additional solutions with longer paybacks. These solutions may include renewable energy solutions and needed facility upgrades such as energy efficient HVAC units, air handling unites, chillers, roofing, etc. Proposed language is:

> **§36-41 (c)(4)** The term of any energy performance contract entered into pursuant to this section shall not exceed twenty years <u>following completion of construction</u>;

NORESCO 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 greenhouse 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.