



To: State and Territory Energy Offices
From: Energy Services Coalition
Subject: Use of Stimulus funds for Public Facility Retrofits
Date: April 18, 2009

State and Territory Energy Offices across the nation are in the process of crafting the State Energy Plan required under Funding Opportunity Announcement (DE-FOA-0000052) associated with the American Recovery and Reinvestment Act. Among the priorities many states are considering for the use of these funds is significant public facility energy efficiency retrofit projects and programs. The most compelling means to deploy these funds is in the expansion or acceleration of Energy Savings Performance Contracting (ESPC).

Employing ESPC as your state's primary means to achieve energy efficiency in public facilities provides greater value, leverage, and job creation than by paying for the completion of a single efficiency retrofit project. Moreover, ESPC instills the rigor of long-term measurement and verification making clear to the public and federal government that the jobs created and energy savings achieved using stimulus funding are lasting and well documented. Following are just some of the reasons a state should expand ESPC efforts:

- 50 percent of energy consumption in the United States is buildings;
- Only 20 percent of the state and local public facilities market has been reached by ESPC;
- Monitoring and verification of energy savings is intrinsic to performance contracting;
- A 20% buy-down of a performance contracting project (using Recovery Act funds) leverages five times the energy, economic and environmental benefits of a single project investment;
- The *Energy Policy Act of 2005* set a 25 percent by 2012 energy efficiency goals for states
- DOE established priority use of funds for activities with the greatest potential for achieving ARRA goals, calling out building retrofits, traffic signal synchronization and LED replacements, and industrial retrofits which can be addressed through ESPC;
- DOE encourages plans that achieve a high degree of leveraging, and/or projects that extend the impact of the funds, calling out revolving loan programs and performance contracting as prime examples.

The Energy Services Coalition has heard from a number of states that it would be helpful to have a set of compelling arguments in support of ESPC as plans are created and considered in their states. The Coalition has prepared the attached list of supporting statements and provisions from a number of sources. Each is aimed at making the case for the use of State Energy Program and Energy Efficiency and Conservation Block Grant Program stimulus funds for expanding or initiating ESPC activities in your state.

State Energy Program and Energy Efficiency Community Block Grant Program Implementation Strategy:

Leveraging Stimulus Funds through Energy Performance Contracting for State and Local Government Buildings

The Energy Services Coalition has prepared the following set of compelling statements and provisions from a number of sources that support the use of Energy Savings Performance Contracting. Each statement is aimed at helping to make the case for the use of State Energy Program and Energy Efficiency and Conservation Block Grant Program stimulus funds for expanding or initiating ESPC activities in your state

From the DOE Financial Opportunity Notice (DE-FOA-0000052)

- **5.9 Priority Uses of Funds**
SEP ARRA funds may be obligated and expended on programs, projects or initiatives as provided in the authorizing legislation. Historical evaluations, however, have demonstrated that the following programs and projects have the ***greatest potential*** to readily achieve the overall goals specified above, and we encourage States to consider them when developing their plan for SEP ARRA funds:
 - Establishment and enforcement of energy efficient building codes and standards, and implementation of voluntary programs that impact new design.
 - Loans, grants and incentives for energy efficiency and renewable energy measures.
 - *Building retrofits.*
 - *Traffic signal synchronization and replacement with LEDs.*
 - *Industrial retrofits* (Page 27 DE-FOA-0000052)

States are encouraged to use their ARRA funding not only to support current energy efficiency and renewable energy projects but also to seed sustainable programs and put in place long-term funding mechanisms such as revolving loans and ***energy savings performance contracting*** that will provide lasting benefits and lead to long-term market transformation. (Page 23 DE-FOA-0000052)

- **5.5 Cost Sharing and Resource Leveraging**
SEP's 20 percent cost sharing requirement is waived for ARRA funds. To increase the impact of these stimulus funds, DOE encourages plans that achieve a high degree of leveraging, and/or projects that extend the impact of the funds. Examples of programs that provide high leverage are revolving loan programs ***and performance contracting.*** (Page 28 DE-FOA-0000052)

- 5.9 Expenditures

Amount of funding spent on project activities that **was leveraged from other sources**. **Leveraged funds are defined as non-federal funds added to an SEP activity that would not otherwise have been spent for energy efficiency** and/or renewable energy programs, and are not included in the grant budget. (page 29 DE-FOA-0000052)

Programs that encourage the introduction of **energy saving technologies in the industry, buildings**, transportation and utility sectors and encourage state and industry partnerships that develop and demonstrate advances in energy efficiency and clean technologies. (Page 34 DE-FOA-0000052)

- 9.5 Optional Program Activities

States may wish to consider the following program areas for inclusion in their State Plans:

Programs for financing energy efficiency and renewable energy capital investments and programs which may **include loan programs in performance contracting programs for leveraging** additional public and private sector funds, in programs which allow rebates, grants, or other incentives for the purchase and installation of eligible energy efficiency and renewable measures in public or nonprofit buildings owned and operated by a state, a political subdivision of the state or agency or instrumentality of the state, or an organization exempt from taxation under 501(c)(3) of the Internal Revenue Code of 1986 including public and private nonprofit schools, hospitals, and local government buildings. (Page 34 DE-FOA-0000052)

- ATTACHMENT 3 -- GOVERNOR'S ASSURANCE CERTIFICATION

(3) The State will to the extent practicable prioritize the grants toward funding energy efficiency and renewable energy programs, including

the expansion of existing energy efficiency programs approved by the State or the appropriate regulatory authority, **including energy efficiency retrofits of buildings and industrial facilities**, that are funded by the State or through rates under the oversight of the applicable regulatory authority, to the extent applicable; (page 51 DE-FOA-0000052)

- COST MATCHING

DOE encourages plans that achieve a high degree of **leveraging**, and/or projects that extend the impact of the funds. (Page 7 DE-FOA-0000052)

From the Energy Services Coalition

- Of the states reporting strong participation in energy performance contracting programs in an industry that's nearly 30 years old, there is less than a 20 percent market penetration in municipal, university, state, and hospital markets. (based upon the race to the top market information to date <http://energyservicescoalition.org/espc/map.aspx>)
- Performance contracting that instills the rigor of long-term measurement and verification provides jobs for the full term of the commitment that may be five, ten, fifteen years or more.
- An incentive buy-down of energy performance contracts with a reasonable portion of the state's ARRA funds not to exceed 20 or 25 percent of the whole of the project allow these funds the opportunity to deliver up to a 5:1 leverage of private investment. This may equate to as many as five times the job creation and as much as five times the greenhouse gas reduction while creating more productive work and learning environments, eliminating deferred maintenance concerns, lowering the annual operating costs and reducing maintenance costs.

Information on the Accelerating Energy Savings Performance Contracting program and to access ESC's *Statewide Program Best Practices and Tools* visit www.energyservicescoalition.org.

