

## **Q & A Session**

**September 3, 2009**

**Mesa, Arizona**

**Presenter: Sameer Pandey, SFB Facilities Liaison**

Thank you for coming. This is the first of the three presentations that we are giving around the state. The one today in Mesa, one next week on the 8<sup>th</sup> at 11:00 at Flagstaff High, and then we have one more at Flowing Wells High School in Tucson. Thank you all again for coming.

Our intent here is to explain the ARRA Stimulus Energy Grant Program. The application is on our website, and we want to get it out there to the school districts so they understand what needs to be done. We have gotten a lot of calls from school districts and some have raised concern over the complexity of the performance contracting process. So that's why we thought we should have a presentation so that everyone is comfortable about what we intend to do. What I'm going to do is briefly explain the program and then we can talk about the performance contracting and our application process. If we have internet I can take you to the application and show you what needs to be done and take questions from you. The questions we get from you today we will post on our website so that every school district can see.

The SFB was allocated twenty million dollars out of the fifty-seven million in ARRA funds that the State received for energy efficiency projects. Twenty million was assigned to the SFB to distribute among the school districts for energy efficiency and solar projects through the Governor's Office. The SFB is going to apply thirty percent of these funds for solar projects and seventy percent will be used for energy efficiency upgrades. Please note that since these are federal dollars, all of the federal requirements including the Davis Bacon Act must be enforced. There is also the Buy America Act that we should always comply with.

### **Solar Projects**

We have approximately 5.5 million dollars for solar projects that we are targeting to the smallest school districts. The selection process is strictly based on square footage. So if your district is one of the smallest, you qualify for the grant. Grant funding will pay for up to a thirty kilowatt system. The SFB will notify the school districts that are eligible – there is no application process. We will assist the school districts that qualify for this grant with the gathering and preparing of the data needed to make an award. This is not a competitive grant, it is based on the square footage of the district. We have notified twenty-five school districts so far and I think we are going to qualify around twenty-two school districts.

### **Energy Efficiency Projects**

The SFB has allocated thirteen million dollars for the Energy Efficiency Grants. The grant award will cover thirty percent of the project cost up to a million dollars per district. This means the remaining seventy-percent of the project has to be provided by the district. The district can use their own capital expenditures including bond funds or any other funds that the district has. Or they can choose to finance the seventy-percent using performance contracting. I will explain performance contracting in a minute, but I just wanted to make you aware that not all districts have to go through the performance contracting process. If district has seventy percent of the funds that you can utilize on this project, the grant award will cover thirty percent of the project, and seventy percent can come from district funds.

Eligible projects are those that save energy in terms of electricity, natural gas or propane. A few examples are HVAC upgrades, lighting upgrades, controls for the hot water, etc. There are a few projects that do not qualify for this grant. These include water conservation – with the grant there is a guideline that prevents use of this money for water conservation. Also, projects that are exclusively training and awareness in nature, such as a training program in a school district that encourages turning off the lights at five o'clock in the evening to save a certain amount of energy. These projects do not qualify. Projects that result in operations savings only do not qualify for this grant.

**Audience Member: Question on a previous slide. It says, "Projects that are *exclusively* training and awareness..." does that mean that if you have a project that does have savings that you can also include that?**

If you choose to do an HVAC upgrade project, there is a certain amount of training that a vendor will provide as part of the project. Those projects are okay. We have seen projects such as explaining how to use energy efficiently. These types of projects do not qualify.

**Audience Member: So can that be a part of the project?**

If training is a part of your overall energy upgrade project, yes; but it cannot be the only element of the project. As part of the application, you will have to justify that it's part of the bigger project.

### **Online Application**

The Energy Efficiency Grant Application is only accessible through the SFB website. November 6, 2009 is the deadline. There will be a competitive selection process. As applications come in, we will start the review process. We will compare one project versus the others. We will recommend the qualified projects to the School Facilities Board in January 2010. All school districts that are interested in this grant, regardless of the district funding source and whether or not you want use performance contracting; have to fill out the online application. The application leans more towards performance contracting, but it can be used for other types of applications. There are four criteria for the selection: life-cycle payback, energy savings in terms of BTU reduction by square foot, energy savings in terms of dollar reduction by square foot, and finally the impact the savings will have on the utility budget.

### **Performance Contracting**

The key feature of performance contracting is the guaranteed energy savings with no upfront cost. The project cost is paid over time, over the life of the contract, through energy savings. The contractor is the party with the most risk since the contract requires that he guarantee a certain amount of savings and that if you cannot realize the savings then he has to come up with the difference. However, there are a few things you do need to consider when applying for the grant. What kind of project do you really want to do under performance contracting? This is really important in the fact that the projects will have to qualify with the impact of the Davis Bacon Act included. We are seeing projects, especially lighting and lighting controls, wherein the Davis Bacon Act will have a big in terms of cost. Your costs may go up twenty percent, versus if you don't use federal money. So choosing the right kind of project is very important. Applying for a combination upgrade project such as HVAC/Lighting or some other kind, rather than just a lighting upgrade project will help your project qualify in terms of the cost. Also, the length of the contract is very important because you will have to pay a certain amount of interest for the loan. The payback will dictate the length of the contract. If you select a project that has a long

payback then you will be paying interest for many years. So choosing a project and the length of the contract is really important.

### **Measurement and Verification**

The Energy Efficiency Grant requires M&V to be performed for the first three years of the contract and then after three years it becomes optional. So you will have to coordinate with the performance contractor for measurement and verification so as to not lose your guaranteed savings.

### **Financing Options**

There are a few financing options that you can choose from. You can issue bonds, qualified school construction bonds, financial institutions; even some utility companies provide financing such as SRP. You could also select and ESCO (Energy Service Company).

### **ESCOs**

You can select an ESCO in three different ways. There are nine vendors on State contract that you can use. There are cooperatives out there, like TCPN and Mohave that have ESCO contracts, or you can do your own RFQ process to select a vendor.

To select the vendor off the State contract, you first have to notify all nine ESCOs. There is a project information template on the SFB website you can use for this notification. You just fill it out and send it to all nine vendors. You can email them or you can send them a letter. Before you do that though, you have to fill out the project info and you have to know which of the buildings or which of the schools that you want to do an energy audit on. The ESCOs will respond to your notification and will present the preliminary audit info with the estimated cost and energy savings. Not all ESCOs have to respond. You have to notify all of them but not all of them have to respond. And then the district will need to develop the criteria by which you will select the chosen ESCO.

### **Audience Member: What is the reason behind notifying all nine ESCOs?**

This requirement is written in the State contract, as part of the RFQ. The SFB has no control over this requirement.

Next, the district will have to come up with the criteria to evaluate the ESCO. We have a template on our website you can use or you can create your own. The SFB template evaluates the ESCOs 25-30% on the cost and savings.

In Phase II, the application process, the district, with the help of the ESCO, will submit an online application. The application is a little technical, so some of the districts will not be able to do it without the ESCOs help. After the application review period, the SFB will award grants based on the criteria established that was previously explained. Projects will be awarded at the January 2010 SFB Board Meeting.

After the projects are awarded in January, the qualified districts will sign a contract, an IGA with the ESCO, for a comprehensive technical audit. There are two things that districts will need to do. First, sign an IGA with the ESCO, and second, procure a third-party commissioning company to help the district go through this process. There are two requirements for the third-party commissioning company. The first will be a project scope which will include verifying the proposed upgrade and verifying the design and installation.

Audience Member: On commissioning... the cost of commissioning will be considered part of the project cost, correct?

Yes, the third-party commissioning will be included in the project cost.

Audience Member: Do we need to know that cost up front before we submit the grant application?

Yes, however, we understand that the cost for the third-party commissioning company in the grant application will be an estimation. We hope that it's pretty accurate but understand that it is an estimation. But the third-party commissioning cost is not a part of those criteria the SFB will use to evaluate the grant application. When we evaluate the project, we are not going to consider the commissioning portion.

### **SFB Review**

Once the investment audit is completed, it must be submitted to the SFB for approval. We'll review the report and if appropriate authorize the district to proceed to signing a lease payment agreement and the contract for installation with the ESCO. Also, the district shall not proceed into construction without the SFB's approval of its IGA report. This means there are two evaluations. One evaluation in the application process and the second evaluation is the IGA report.

Audience Member: Does the same 70/30 split apply to renovations that included energy upgrades? Does the grant help pay for the upgrade renovation? Can it pay for more than just thirty percent? Or is the district required to pay for seventy percent of those renovations as well?

The grant is only going to cover thirty percent of the project cost.

Audience Member: So the 70/30 split applies to the performance contracting as well?

It applies to all kinds of projects, performance contracting or not.

### **Application Process**

From the SFB website ( [www.azsfb.gov](http://www.azsfb.gov) ), click on "District Access," then choose a district from the drop-down menu. In the menu across the top of the page, mouse-over "Grants" and click on "Stimulus Energy Grant Application." This will take you to an instruction page about passwords. A unique password is generated for each application. When creating a new application make note of the password assigned by the system as it will be required for accessing the application in the future.

Begin completing the application by filling in the requested information, starting with the district Contact Information, info on Schools, the 2009 Energy Expenditures on gas and electricity, the ECM or the type of project that you want to do, and finally the additional costs, which outlines the overhead/profit, permits, taxes, etc. For Contact Information, we request the district contact info as well as the ESCO contact info. When you click on "Schools" and choose the schools for which the project will be applied, you will select the electricity provider, gas provider, and the buildings that you audited. Simply check the appropriate boxes and click "submit" at the bottom of the page. On the ECM page, you enter the type of project you are applying for. Choose from the drop-down menu. For your convenience, when you mouse-over the blue field headers information or instructions are provided for that field. Some of the information requested can be complicated. Districts may want help from the ESCO's to provide the info requested in the application. You may also contact the SFB and we can help

you figure out what energy type you should be using. It can be pretty complicated whether to choose option A, B, or C. But if you're not doing performance contracting you really don't have to worry about M&V because you're not going to do measurement and verification on those kinds of projects.

For the Additional Costs we request overhead and profit information. We also need the cost of your IGA audit. Three percent contingency is added to the project cost to cover unforeseen costs. The SFB will control/administer the contingency. We also request the maintenance, service, and energy costs per year. Maintenance service is an option. If some districts want to choose that option, there are cost estimate they can use. **\*\*END OF PRESENTATION\*\***

\*\*\*\*\*

### **Q & A Session**

**Audience Member:** I just wanted to clarify one point – that if a district chooses to go with a cooperative like Mohave, for example, for an RFQ, they can choose anyone they want from the RFQ, but if they choose the State contract then they must abide by the rules of the State contract. They have other options, but within the State contract you have to abide by those rules.

**Staff:** Exactly. We are not saying that districts have to go through the State contract. Districts have a choice as to how they procure an ESCO as long as the appropriate procurement rules are followed. But if they want to follow the State contract, then that's the process that they need to follow.

**Audience Member:** If a district decides to use their own bonds for funding, you're saying they don't have to use an ESCO to manage their project?

**Staff:** No.

**Audience Member:** What about guaranteed savings? Are you going to require a construction contractor to guarantee savings?

**Staff:** Guaranteed savings are required if you are using performance contracting. There needs to be a guarantee that you have enough money to pay back the loan. If you have bond money, that you don't have to pay back, then it's up to the district whether they want to use performance contracting.

**Audience Member:** Well, you have to pay bond money back.

**Staff:** Yes, that's correct. But we are interested to see how you're going to pay back the loan, in terms of savings. If the district is providing their seventy-percent of the project funds through a capital expenditure fund, than you are not paying back a loan, then we really don't need to see it. All we really need to know is the savings in terms of dollars and BTU. Obviously we are going to verify the savings, but that's all. We don't need guaranteed savings if the district is providing funds from a capital expenditure fund other than a bond. But performance contracting or any other lease payment that you have to make to do this project, we need to know the guaranteed savings part of it.

Audience Member: I want to ask, if you're approved for a project, how far out can you actually perform the project? How much time do you have to start the project and complete the project?

Staff: For most SFB grants typically we allow four months for the district to sign a contract. In this case with the ARRA funds, all monies have to be spent within three years. All the money would have to be spent by April 30, 2012. But the SFB Terms and Conditions for the grant funding will spell out the time frame.

Audience Member: If the school district is awarded funds but doesn't use those funds are those funds lost to the State or is there a way to recover those and direct them somewhere else?

Staff: There will be districts on a waiting list. So if you don't use the funds within a stipulated amount of time, then that will go to the next district in line waiting.

Audience Member: Is a tear-down & replacement project eligible for this grant?

Staff: Only energy upgrade projects are eligible for the grant.

Audience Member: If they're going to completely tear down a building and replace it...

Staff: No. There is a prohibition on using any of the ARRA funds on construction or the replacement of a building.

Audience Member: If you are awarded a grant, for example, for a lighting upgrade project, and you've got other things going on in the project at that same facility... like for example, you're remodeling classrooms or restrooms to meet a change in the academic use... does the Davis Bacon ACT apply?... can you separate out the grant work from the rest of the work?

Staff: If you use a penny of ARRA fund on a project, the Davis Bacon Act applies to the entire project.

Audience Member: One thing that we've seen with ARRA funding, as a first tier relationship with the ESCO, is the federal requirements for documenting the project back to the government and that there needs to be something in your contract language to make sure this federal reporting is included within the ESCO contract. The school district's responsible with that first year vendor. Include it in your contract with any ESCO vendor to protect yourself that they're going to help prepare that documentation.

Staff: The SFB will provide assistance with explaining the requirements of the Davis Bacon ACT. But it'd be very helpful for the ESCO to fulfill the requirements of the stimulus funds, and track the number of employees that are on the project so that it is showing that it's creating jobs and that the work is being done. At the outset, the U.S. Department of Energy has set the standard that any time you spend \$92,000, they want certain data tracked and reported. They also ask you to track the greenhouse gas emission reductions, which, if you know the kilowatt hours and the therms of gas saved, the calculation is fairly easy but it might be something that you'd want your ESCO to help you with. And although we're not doing many renewable projects with the performance contracting, if you do install any systems, they want to know size of systems, estimated number of kilowatt hours produced or whatever energy you're producing.

Audience Member: Some of the grants have monthly expenditure of the contract that you have to report... I'm just saying that that's how it needs to be in the school district's contract to protect themselves and make sure somebody helps them prepare that way.

Staff: The agreement between the School Facilities Board and the State Energy Office is for reporting every quarter, but you can submit documentation for reimbursement up to twice a month for the payments going out to the schools and the ESCOs. We will have all of the details worked out by the time we award the grant funding and contracts are put in place.

Audience Member: Is there a payback period requirement or payback criteria?

Staff: There is none. But the evaluation criteria are set up such that if you have a project that has a twenty-five year payback, it may not qualify. But for example, if you want to add solar to a project; solar energy doesn't payback in its life. So you'd want to combine, for example, a solar project and a lighting upgrade project to bring the payback down. We have set up the evaluation criteria such that 10-12 years is a comfortable payback timeframe. However, some districts feel more comfortable with a five years payback. What we're saying is, if you want to go beyond 10-12 years, there is a risk that you may not qualify for a grant award. Remember, this is a competitive grant.

Audience Member 2: What are the qualifying criteria? And then my second question is, how many districts right now are on board with this?

Staff: We don't know how many districts are on board with this at this point. But we've heard from five or ten school districts that are interested in pursuing this. This is a competitive grant; there are certain evaluation criteria, and this includes lifecycle payback. A lifecycle payback of twenty-five years may impact whether your project qualifies for an award.

Audience Member: What does the SFB estimate the cost of the Davis Bacon Act to be?

Staff: We did a study to figure out the impact of the Davis Bacon Act. Initially, we proposed twenty percent buy-down of the project, and then we realized that twenty percent may not be enough for some of the projects that are heavily loaded with lighting, or lighting upgrade kind of projects. So we changed it to thirty percent. But that all depends on the type of project. If you have a project that is seventy, seventy-five percent lighting, then typically you are looking at around twenty percent. It also depends on who you work with. All the big lenders, regardless of whether the Davis Bacon Act applies or not, they are used to seeing sub-contractors or laborers that have gotten a higher rate. So, it all depends on who you pick. If you have a local escrow company who generally does local work, you may see a bigger impact. If you have a national or international escrow who generally pay the laborers at a higher rate, then you will feel less impact.

Audience Member: A number of other districts have run the numbers and they're also saying thirty percent. If that's the case then why go through all of this, if the grant funds will just cover the impact of the Davis Bacon Act on the cost of the project?

Staff: We ran the numbers on some of the energy projects that we did last year and found that if the project is heavily loaded with lighting, you will see around twenty, twenty-five percent cost impact. But for a thirty percent cost impact, the project would have to be ninety or ninety-five percent lighting, or all lighting.

Audience Member: Could you talk more about choosing one of the other methods of financing, what records is your office is going to want to see?

Staff: If you use performance contracting, obviously you're going to have to have a guaranteed savings. If you're not using performance contracting, but you have some kind of a lease payment agreement with a bank or financial institution to do the project, you're going to need to provide documentation on how you are going to pay back the loan through estimated savings. Plus, we're going to do our own evaluation on the savings.

Audience Member: Are rebates considered evaluation criteria?

Staff: Rebates do not impact the grant award. Districts may include the rebates in their seventy percent, or they may take the rebates to do anything they want with it.

Audience Member: Since this is a competitive grant, and since you say you expect there to be a waiting list, does it make sense for school districts to lump all of their measures into one project, or to have several separate projects so they can be prioritized so that some are approved and some are not? Is it an all or nothing? What makes the most sense?

Staff: We would advise you to break the projects down. You can submit as many applications as you want. You want to put in an application that has the best scenario or the best qualities to qualify. And then you can still use the other projects. You want to break it down to the level that will best qualify for the grant. It's not a good idea to put all that you want to do in one project application.

Audience Member: Because then it's an all or nothing?

Staff: Yes, it's an all or nothing.

Staff: Not a question, just something for clarification. One of the federal rules is that you cannot do any asbestos abatement. If any of your projects has any asbestos removal, this has to be done separately and cannot be funded with ARRA funds.