

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES**

**Agenda Item Summary Sheet**

**Name:** Finance and Facilities Committee

**Date:** January 28, 2015

**Title:** Minnesota State University, Mankato Approval for Guaranteed Energy Savings Program Contract Exceeding \$1 Million

**Purpose (check one):**

- |   |  |   |
|---|--|---|
| <input type="checkbox"/> Proposed<br>New Policy or<br>Amendment to<br>Existing Policy | <input checked="" type="checkbox"/> Approvals<br>Required by<br>Policy | <input type="checkbox"/> Other<br>Approvals |
| <input type="checkbox"/> Monitoring /<br>Compliance                                   | <input type="checkbox"/> Information                                   |   |

**Brief Description:**

To obtain board approval of a contract not to exceed \$12 million for purposes of improving campus energy efficiency, reduction of carbon emissions, and reduction in deferred maintenance at Minnesota State University, Mankato.

**Scheduled Presenter(s):**

Brian Yolitz, Vice Chancellor - CFO

**BOARD OF TRUSTEES  
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

**BOARD ACTION**

**Minnesota State University, Mankato Approval for Guaranteed Energy Savings  
Program Contract Exceeding \$1 Million**

**PURPOSE**

To obtain the Board of Trustees approval of a contract in excess of \$1 million, consistent with Policy 5.14, *Contracts and Procurement*.

**BACKGROUND**

A Guaranteed Energy Savings Program (GESp) is a performance-based procurement and financing mechanism that uses the expected savings from the efficiencies of new equipment and operational savings to finance the cost of an energy-saving building system renovation or renewal. There is no net cost increase to the campus that uses such an arrangement. GESp represents an alternative to state capital bonding. **Attachment A** shows a simplified example of how the program works.

A Guaranteed Energy Savings project is designed to improve energy efficiency and maintenance costs for facilities, and must save enough money to be able to pay back the cost of the improvement and related return on investment for a selected Energy Services Company (ESCO). Under a GESp, a campus contracts with a prequalified Energy Services Company to design, finance, and install energy-saving improvements. After the improvements are completed, a separate firm is hired to track performance to verify it meets savings projections.

In exchange for the building system improvements and arranging financing, an ESCO and their financing source collect project fees and interest on top of the equipment and installation costs. Such costs are recouped over a set term, usually 15-20 years, through the lease-purchase agreement. During the term of the contract period, the projected savings covers the total cost of the capital investment, including all fees and interest costs. After the payback term ends, the campus retains ownership of the equipment and receive the direct benefit of the continued operational savings from the equipment.

An ESCO guarantees the project by projecting the estimated savings, designing, financing and constructing the project. An independent firm is hired after completion to verify accounting for the expected payback of the project. Expected savings will be adequate to cover or (preferably) exceed the cost of the project. The campus gets the benefit of the energy saving improvements, will operate the equipment as directed, and the risk of meeting the savings estimates is on the ESCO.

Guaranteed Energy Savings programs are not new, and Minnesota State Colleges and Universities have used these programs on a small, ad-hoc basis. At last count, the system's college and universities have completed approximately \$10-\$12 million worth of projects using the GESP or similar mechanisms since 1999.

## **STATEWIDE EFFORTS ON GUARANTEED ENERGY SAVINGS**

In April 2011, Governor Dayton established the Office of Guaranteed Energy Savings Programs within the Department of Commerce to provide technical, contractual and financial assistance to state and local governments, including institutions of higher learning that elect to implement energy efficiency and renewable energy improvements through Guaranteed Energy Savings Contracts.

With the Governor's recent energy initiative and the system's challenges competing for Higher Education Asset Preservation and Replacement (HEAPR) funds during the legislative process, we have asked our colleges and universities to evaluate the state's Guaranteed Energy Savings Program as an alternative method to reduce backlog and energy consumption on campus for eligible projects. This program offers an alternative avenue to satisfy facilities backlog request that have not yet been met by HEAPR or capital bonding requests.

With the emergence of the Department of Commerce's program and support, MnSCU has approximately half a dozen campuses in various stages of evaluating the possible use of a the Guaranteed Energy Savings Program, including Minnesota State University, Mankato, the subject of today's proposed Board action.

## **CONSIDERATIONS**

With support from the Minnesota Department of Commerce and the system office, Minnesota State University, Mankato issued a Site Specific Request for Proposal to engage one of the state's prequalified Energy Service Companies (ESCO) to investigate potential campus projects that would qualify for the program. The selected ESCO has since performed a preliminary investigative audit of the major energy consuming components of the Mankato campus over a three month period from July through September of 2014.

Analysis of data yielded a range of potential projects that meet the self-funding requirements of the Guaranteed Energy Savings program. An additional in-depth review and analysis is in progress to affirm viability and identify the most advantageous mix of projects. Opportunities range from nearly \$10 million worth of improvements within a 15 year payback period to over \$12 million possible in a 20 year payback scenario.

MSU, Mankato's utility costs currently exceed \$4 million annually. Participation in the Guaranteed Energy Savings program is expected to save up to 20%, or \$800,000 per year over current energy consumption costs, and yield a reduction to the campus' carbon footprint. The corresponding environmental impact of a 20% reduction in energy consumption will reduce the campus's carbon dioxide emissions by an estimated 25,000 metric tons annually. This reduction is equivalent to approximately 2,281 homes energy use in one year.

The project is entirely self-funding. There is no impact on tuition, fees or financial viability of campus, and will ultimately result in reduced operating costs for the university.

### **FINANCIAL STATEMENT IMPACT**

The campus would book a liability for the amount financed for the project using a lease-purchase agreement. Such liability is reduced each year when payments are made based on the lease-purchase amortization schedule. The expenses will be capitalized. The depreciation period is matched to the length of the lease-purchase terms, which are disclosed as energy notes payables on the financial statements/notes.

### **MAJOR TERMS**

A fifteen (15) year payback on identified projects is the base option with an estimated project cost of approximately \$9,850,700. Other options extending out to twenty years are being evaluated. Projects to be considered for the longer duration would be those that further or enhance campus infrastructure. Additional chillers or standby power generators are two candidates. The majority of project candidates would otherwise be on the HEAPR list for consideration during subsequent legislative sessions.

The university expects that work would be completed within 18 months after execution of the work order contract for the identified projects. No additional cash is required of the university or the system to participate in the program, although additional projects could be performed under this program if campus matching funds are available.

Annual measurement and verification inspections will occur annually to affirm the proper operation of the improvements and the continued guaranteed energy saving. Execution of the first work under this program is expected to occur during the summer of 2015 with final completion during summer of 2016.

The Finance and Facilities Committee recommends that the Board of Trustees adopt the following motion:

#### **RECOMMENDED COMMITTEE ACTION:**

The Board authorizes the chancellor or his designee to enter into a Guaranteed Energy Savings contract not to exceed \$12 million for purposes of improving campus energy efficiency, reduction of carbon emissions and reduction in deferred maintenance at Minnesota State University, Mankato.

#### **RECOMMENDED BOARD OF TRUSTEES MOTION:**

The Board authorizes the chancellor or his designee to enter into a Guaranteed Energy Savings contract not to exceed \$12 million for purposes of improving campus energy efficiency, reduction of carbon emissions and reduction in deferred maintenance at Minnesota State University, Mankato.

*Date Presented to Board of Trustees: January 28, 2015*

**ATTACHMENT A**

