

SOUTH DAKOTA BOARD OF REGENTS

Budget and Finance

AGENDA ITEM: 8 – B
DATE: June 26-27, 2019

SUBJECT

BHSU Energy Performance Contract

CONTROLLING STATUTE, RULE, OR POLICY

[Chapter 1-33B - Guaranteed Energy Savings Contracts](#)
[BOR Policy 5:3 - Agreements and Contracts](#)

BACKGROUND/DISCUSSION

South Dakota had an energy performance contract statute on the books since the early 1990’s that was never utilized by a state agency. Board staff pursued the updating of the statute language with the Daugaard administration such that the law would align with industry practice. In 2016, the entire chapter was updated making performance contracting possible within the university system and the State. BHSU has aggressively pursued performance contracting as another avenue to minimize energy consumption and save the State money.

The new Guaranteed Energy Savings Contracts statute provides for energy saving projects to be financed with the utility savings realized from those projects. The projects must garner enough energy savings for the total project cost to be paid back within 15 years. Black Hills State University is the first university to pursue this option and as such has been working with the Board of Regents Office, the Office of the State Engineer, the Bureau of Finance & Management, and the Bureau of Administration to establish policies and procedures that any South Dakota governmental entity may follow in the future.

BHSU contracted with Unesco, an energy service company (ESCO) to complete an energy audit, which has identified \$3.4 million of cumulative energy savings, including operational savings, over the 15-year period. The proposal includes such projects as updating LED lighting, rezoning air handlers, modifying operation of chilled water pumps, sequencing exhaust fans to match occupancy needs, balancing the chilled water system, repairing or replacing steam traps, and replacing domestic plumbing fixtures at both BHSU and BHSU-Rapid City.

(Continued)

DRAFT MOTION 20190626_8-B:

I move to approve the BHSU Energy Performance Contract at an estimated cost of \$3.4M to be paid for with energy savings over a 15-year period.

A critical piece of the financing structure is to retain the general fund utility savings resulting from these projects. Those general funds will pay the annual lease cost for academic buildings. A memorandum of understanding regarding the utility savings will be needed. Once the project is paid off, the energy savings will be returned to the State of South Dakota. Currently, general fund utility savings are reverted to the State; the universities are not allowed to keep those savings. Although this funding policy creates a disincentive to the universities to complete energy efficiency projects, BHSU has historically made it a priority to manage utility costs and save energy resulting in an accumulation of hundreds of thousands of dollars in savings to the State. This new SDCL allows those savings to be reinvested at BHSU to advance further energy efficiency projects. The portion of the costs related to the residence halls will be paid from residence hall funds. After the project is paid off in 15 years, the annual savings remains in the auxiliary system.

Per SDCL, the ESCO must perform measurement and verification of the energy savings for a three-year period. If those savings are not realized, the ESCO is responsible to cover the shortfall in the annual lease payment.

These projects will result in \$206,240 in utility savings each year, \$113,612 in savings to the State and another \$92,628 in savings to the Auxiliary System, which are broken down below:

<u>Utility</u>	<u>Savings</u>	<u>Compares to</u>	<u>% Savings</u>
Electricity	2,185,436 kWh	210 households	23%
Natural Gas	9,956 MBtu	60 households	22%
Water	2,769,066 gallons	84 people	24%

BHSU has issued a request for proposal (RFP) for capital lease financing for this project. The project is expected to begin in the summer of 2019 and be completed by the end of the calendar year.

IMPACT AND RECOMMENDATIONS

BHSU will be the first state entity to accomplish a guaranteed energy savings contract allowing others to learn from their experience and to possibly pursue energy savings for the State. The project is dependent on the state allowing the utility savings to pay the lease-purchase payments over the payback period.

Current Board policy requires equipment leases exceeding \$100,000 per year to have Board approval. The annual lease cost for this project is estimated at \$206,240 per year without financing costs. Because of the unique nature of this project and the necessary long-term memorandum of understanding with the Bureau of Administration, the Board is being asked to approve the project.

ATTACHMENTS

None