



SUMMARY OF ITEM FOR ACTION,  
INFORMATION OR DISCUSSION

**TOPIC:** Energy Performance Contracts at Bowie State University, Towson University, and University of Maryland, Baltimore County

**COMMITTEE:** Finance Committee

**DATE OF COMMITTEE MEETING:** October 7, 2010

**SUMMARY:** The aforementioned USM institutions request approval from the Board of Regents to enter into an Energy Performance Contract (EPC) with the Energy Service Companies (ESCOs) listed below in order to improve energy efficiencies in building systems and components; and thereby reduce energy consumption, save operating budget funds, and replace some aging mechanical systems. This request for approval is made pursuant to USM Procurement Policies and Procedures section VII.C.2 for procurements exceeding \$5 million.

An important component of the University System of Maryland's plans to meet the Governor's EmPower Maryland goals for carbon footprint reduction is the use of Energy Performance Contracts (EPCs). These important vehicles for reducing energy consumption allow improvements to be financed by the savings they produce. The Board has previously approved EPCs for multiple buildings at UMCP, UMCES and UB.

Three new EPC projects are currently ready for implementation:

Inst.	ESCO	Total Project Cost	Financed Cost	Est. Savings/year
UMBC	Noresco	\$32M	\$25M	\$2.5M
Bowie	Johnson Controls	\$ 6M	\$ 5M	\$0.5M
Towson	Constellation	\$32M	\$25M	\$2.5M
<b>Total (three projects)*</b>		<b>\$70M</b>	<b>\$55M</b>	<b>\$5.5M</b>

\*Tentative maximum costs. These figures may vary after contracts and terms are finalized with the ESCOs and the State, but the aggregate for all three projects will not exceed the figure shown.

The State Treasurer loans the funds to initiate the projects that are designed by ESCOs hired via a competitive process managed by the Maryland Dept of General Services. These contractors provide services in two phases. The first is an evaluation of current systems resulting in a proposal of recommendations for capital improvements to those systems with certain guaranteed energy savings to pay for the improvements over time. The second phase provides for implementation if the first phase recommendations are acceptable to the university. (Each institution listed has accepted the ESCOs' Phase II proposal and seeks Board approval to engage the ESCO in its implementation.)

Energy Performance Contracts are then financed upon a written obligation of the institutions to make payments to the State Treasury using energy savings that are a result of implementing a

mix of services and equipment. The energy cost savings and/or cost escalation avoidance are guaranteed by the ESCO to be sufficient to cover the contract cost. As a consequence of the reduction of energy and water consumption, the project is another step in the institution's effort to conduct its operations in an environmentally sustainable manner.

While the concept of repaying the loan with energy savings seems reasonable (as long as operating budgets are not reduced) this *guarantee* of loan repayment had caused the EPCs to score debt on the System's financial statements; there was discussion at the May 2010 Capital Workshop and again at the June 15, 2010 meeting of the Finance Committee as to whether or not the USM could support additional EPCs under its current debt capacity. More recently, the State of Maryland has agreed to include the cost of these projects in their debt affordability calculations. System staff are discussing a process with the State where these projects would not impact the USM's debt capacity.

**ALTERNATIVE(S)**: The institutions could choose to forego the EPCs and forfeit the environmental and financial benefits they afford since these institutions are not in a position to fund the entire capital improvements that would result in the energy and cost savings afforded under the EPCs. However, it is likely that the institutions would look for other internal ways to finance a portion of the projects in order to realize some of the energy and carbon reductions.

**FISCAL IMPACT**: The total contract amounts and construction costs are listed above. The contract typically provides for the construction and/or installation of a variety of Energy Conservation Measures (ECM's) including such components as lighting and occupancy control upgrades, chiller replacement and chilled water plant upgrades, and a savings and payment guarantee as-well-as life cycle maintenance of the ECM's. Construction amounts will be financed by the Treasurer's Energy Performance Contract Master Lease-Purchase Agreement. The annual debt service and payments for management services will be covered by the annual guaranteed savings generated by the ECM's. The institutions will fund any shortfalls with their own resources. The duration of the contract is thirteen (13) years from the date that construction is complete and final acceptance of all the Energy Conservation Measures.

**CHANCELLOR'S RECOMMENDATION**: That the Finance Committee recommend that the Board of Regents approve for UMBC, Bowie State University and Towson University the award of an Energy Performance Contract to the ESCOs listed under the terms and conditions described, above consistent with USM Procurement Policies and Procedures section VII.C.2. Funding for the EPC implementation will be provided as described under Fiscal Impact. The cost for routine and preventative maintenance and Measurement and Verification program will be assumed as an institutional operating expense. Furthermore, this approval is conditioned upon the determination that the resulting debt does not impact the USM balance sheet.

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COMMITTEE RECOMMENDATION:

DATE:

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BOARD ACTION:

DATE:

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SUBMITTED BY: Joseph F. Vivona (301) 445-1923

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