

**STATE and LOCAL
CONDITIONAL FISCAL IMPACT**

Drafting Number: LLS 14-0474	Date: April 14, 2014
Prime Sponsor(s): Sen. Schwartz; Kerr Rep. Tyler	Bill Status: Senate Local Government
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SHORT TITLE: EFFICIENT SCHOOL & COMMUNITY PERFORMANCE CONTRACTS

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016
State Revenue <i>Revenue Change</i> Cash Funds	See State Revenue section	
State Expenditures Cash Funds	See State Expenditures section	
FTE Position Change		
Appropriation Required: None		

* This summary shows changes from current law under the bill for each fiscal year.

Summary of Legislation

This bill is intended to facilitate the financing and development of energy efficiency projects in rural Colorado. The bill defines efficiency projects as projects of a community entity (a school district, special district, county, or municipality in a small or rural community) that results in the more efficient use of energy or resources. Such projects could include:

- installing equipment and related infrastructure that will help defray energy costs;
- improving the energy efficiency of a building;
- reducing water usage or consumption;
- re-engineering or improving water or wastewater treatment facilities; or
- improving the energy usage of transportation infrastructure.

The bill authorizes the Colorado Energy Office (CEO) to collaborate with pre-qualified energy service companies (ESCOs) to identify a portfolio of projects that will attract private sector investment. The bill specifies that if a portfolio of projects is financed, financing terms must include a fee not to exceed one percent of the cost of issuance. The fee is payable to the Department of Local Affairs (DOLA) and is to be credited to the newly created Efficient Schools and Communities Performance Contracting Fund. Money in the fund is subject to annual appropriation by the General Assembly to the DOLA, and is exempted from the existing statutory limitations on uncommitted reserves in cash funds.

Once sufficient fee revenue has been accumulated in the fund, the DOLA in collaboration with the CEO, may award grants to reimburse either: 1) a portion of the costs of the technical energy audit completed by the community entity whose project was not financed, or 2) a portion of the energy service company's costs if the project was not financed. All grants must be prioritized by need, and may not exceed the available fee revenue. The DOLA will administer the grant program, and may spend up to five percent of fee revenue to cover administrative costs.

Background

Energy Performance Contracts. Energy performance contracts (EPCs) are an alternative financing mechanism designed to accelerate investment in cost effective energy conservation projects. Typically, an ESCO will conduct an energy audit on a facility, identify potential energy savings improvements, and design a project to make the improvements and arrange the necessary financing. The ESCO guarantees that the project improvements will generate sufficient energy cost savings to pay the financing costs of the project over the term of the contract. Any additional cost savings that occur after the contract ends, accrue to the facility owner. Both project costs and the energy savings must be guaranteed.

State Revenue

Fee Revenue. The bill specifies that for a portfolio of projects, the financing terms must include a fee not to exceed one percent of the cost of issuance. Fee revenue will be deposited in the Efficient Schools and Communities Performance Contracting fund and used to cover a portion of either the energy audit costs or project implementation costs of the project is not financed. The amount of fee revenue is currently unknown as it will depend on the number of projects financed and the cost of those projects. This revenue is conditional on some number of energy efficiency projects being financed.

State Expenditures

Colorado Energy Office. The bill authorizes, but does not require, the CEO to work with pre-qualified ESCOs to identify efficiency projects that can be aggregated into a portfolio at a level that will attract private investment. The CEO is also authorized to provide education and outreach to local governments concerning the benefits of energy performance contracting. It is anticipated that these additional responsibilities will be accomplished within existing resources. These costs are conditional on the CEO undertaking these activities.

Department of Local Affairs. The bill authorizes, but does not require, the DOLA to collaborate with the CEO to provide education and outreach to local governments concerning the benefits of energy performance contracting. The DOLA will incur minimal costs associated with marketing the program to communities, and developing informational materials. These activities are not expected to require new appropriations. In addition, the DOLA is charged with administering a grant program for community entities. Grants will be funded with fee revenue, but up to 5 percent of that revenue may be used to cover administrative costs of the grant program, including staff time to create the grant program policies, application materials, and procedure and contract documents. The number of grants awarded will depend on the available fee revenue. These costs are conditional on the DOLA undertaking these activities.

Local Government Impact

Local governments whose projects are financed or completed with grant money will see reduced energy costs. In addition, local governments may be awarded grants to cover a portion of the energy audit costs if their projects are not financed.

School District Impact

School districts are eligible for the same benefits as other local governments.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State and Local Government Contacts

Colorado Energy Office
Municipalities

Local Affairs
School Districts

Counties