

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: March 20, 2013

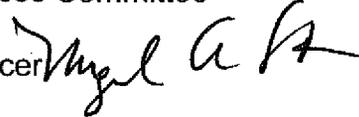
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Council File No. 11-1394

Council District: All

To: Councilmember Jan Perry, Chair
Information Technology and General Services Committee

From: Miguel A. Santana, City Administrative Officer



Reference: **GSD REPORT - PROVIDING FOR THE FINANCIAL SUSTAINABILITY OF THE GREEN RETROFIT PROGRAM FOR CITY-OWNED FACILITIES**

Subject: **REPORT BACK ON PROVIDING FOR THE FINANCIAL SUSTAINABILITY OF THE GREEN RETROFIT PROGRAM FOR CITY-OWNED FACILITIES**

At its meeting on January 8, 2013, the Information Technology and General Services Committee considered a report from the Department of General Services (GSD C.F. 11-1394) regarding recommendations to develop a financially sustainable green retrofitting program for City-owned facilities. The Chair then directed this Office to review the GSD proposal, including policy options, specific recommendations, and fiscal impact.

SUMMARY

In order to fulfill the intent and goals of the City's Green Retrofit and Workforce Program (Green Program), the City Council instructed the Department of General Services to prepare a report for Council consideration which would establish a Special Revenue Fund or appropriate mechanisms to support the financial sustainability of green retrofitting all existing City-owned buildings and public spaces.

Summary of Prior Energy Efficiency Projects

Beginning in 2001, the Mayor and Council authorized GSD to enter into loan agreements with the Department of Water and Power to borrow funds for energy efficiency projects. According to GSD, the program resulted in completion of over 250 energy conservation projects and reduced City's energy consumption by approximately 20 million kWh (kilowatt hour) annually.

GSD also continues to apply for California Energy Commission (CEC) loans to complete additional energy conservation projects. In addition, GSD is currently working with the Mayor's Office to develop a financial strategy to identify grants and private financing opportunities to complete additional energy conservation projects.

In 2009, the City received \$13 million in American Reinvestment and Recovery Act – Energy Efficiency Conservation Block Grant (EECBG) funding to retrofit 33 City facilities.

Most recently, in September 2011, the Mayor and Council approved a three-year program to retrofit 52 City buildings utilizing the Qualified Energy Conservation Bonds (QECBs) in the amount not to exceed \$12 million. The net debt service will average approximately \$740,000 per year.

Summary of Recommendations

The Recommendations, if approved, will:

- **Designate a special fund to implement and expand the City's Green Retrofit and Workforce Program** – the existing Energy Conservation Loan Program Fund will be renamed the Green Retrofit Program Fund, and the scope of the new fund will be expanded to include any income received for the purchase, installation, and monitoring of energy efficiency, water conservation, and other environmentally sustainable measures at City facilities. The new fund will retain all interests, savings, and other earnings attributable to the fund for additional retrofit projects.
- **Incorporate Green Retrofit and Workforce Program as part of the City's budget process** - the General Manager of General Services Department will report annually to the Mayor and Council on energy efficiency, water conservation, and other environmentally sustainable projects implemented and recommend funding for new projects to continue and sustain the Green Program as part of the annual budget process.
- **Develop alternative funding opportunities** - the General Manager of General Services Department will work with the Mayor's Office to develop strategies to identify grants, private financing, and any other alternative funding opportunities to expand the City's Green Retrofit and Workforce Program.

RECOMMENDATIONS

That the Council,

1. Approve the designation of the Energy Conservation Loan Program Fund as the Green Retrofit Program Fund to implement and expand the City's Green Retrofit and Workforce Program,
2. Request the City Attorney to prepare and present an ordinance to amend Los Angeles Administrative Code Section 5.532, Energy Conservation Loan Program Fund as described in the draft amendment (Attachment 1),

3. Direct the General Manager of General Services Department to report annually by January 31 to the Mayor and Council on energy efficiency, water conservation, and other environmentally sustainable projects implemented and recommend new projects to continue and sustain the Green Program as part of the annual budget process, and
4. Direct the General Manager of General Services Department to work with the Mayor's Office to develop strategies to identify grants, private financing, and any other alternative funding opportunities to expand the City's Green Retrofit and Workforce Program.

FISCAL IMPACT STATEMENT

If the proposed changes are implemented, no additional General Fund impact is expected.

FINDINGS

1. GSD PROPOSAL

GSD is proposing several funding strategies to ensure financial sustainability of the Green Program (Attachment 2)

a) ISSUANCE OF ADDITIONAL QUALIFIED ENERGY CONSERVATION BONDS (QECBs)

In September 2011, the Mayor and Council approved a three-year program to retrofit 52 City buildings utilizing the Qualified Energy Conservation Bonds (QECBs) in the amount not to exceed \$12 million. The QECBs are federally-subsidized bonds that enable local governments such as the City to borrow money to fund energy conservation projects at very attractive borrowing rates over long terms. The QECB Program requires that the retrofitted buildings achieve at least 20% reduction in energy consumption. The initial \$12 million in QECBs approved by the Mayor and Council is a portion of the total \$39.8 million allocation that the City received in 2010.

b) ADDITIONAL DEPARTMENT OF WATER AND POWER (DWP) and CALIFORNIA ENERGY COMMISSION (CEC) LOANS

Various DWP and CEC loans are available to implement energy efficiency projects at City facilities. The City should continue to use these resources to fund energy conservation efforts. Council has authorized GSD to apply and accept loans from both agencies.

c) GRANT OPPORTUNITIES

The Mayor's Office and GSD are developing strategies to identify grants, private financing, and any other alternative funding opportunities.

d) **DEDICATED SPECIAL FUND FOR THE GREEN PROGRAM**

GSD recommends the amendment of LACC Section 5.532, the Energy Conservation Loan Program Fund, to provide a financially sustainable mechanism for the Green Program. The Energy Conservation Loan Program Fund was created to allow the City to receive, retain, and disperse loan or other monies from the DWP for the purchase and installation of energy efficiency measures in City facilities. The draft ordinance is attached.

The proposed amendment of Section 5.532 will:

- a) Change the name of the Energy Conservation Loan Program Fund to the Green Retrofit Program Fund,
- b) Expand the scope of the fund to include any income received for the purchase, installation, and monitoring of energy efficiency, water conservation, and other environmentally sustainable measures at City facilities,
- c) Attribute all interests, savings, surpluses, other earnings to the fund,
- d) Authorize the General Manager of GSD to make expenditures consistent with the purpose of the fund, including transfer of expenditures incurred or paid by other funds, and
- e) Require the General Manager of GSD to report annually to the Mayor and Council on energy efficiency, water conservation, and other environmentally sustainable projects implemented and recommend new projects to continue and sustain the Green Program.

2. CAO REVIEW OF GSD PROPOSAL

This Office supports the expansion of the scope of the current Energy Conservation Loan Program Fund to include all energy, water, and environmentally sustainable measures and dedicating the new fund as the Green Retrofit Program Fund is an appropriate mechanism for the City to support the Green Retrofit Program.

Once the retrofit energy savings for the initial \$12 million QECB projects are completed and audited to ensure eligibility for the QECB Federal interest rate subsidy, GSD may request approval for additional QECB funding as part of the annual budget process.

GSD may also request approval for application of DWP or CEC loans. GSD may submit a project list with capital cost requirements, projected energy savings, and a repayment schedule to the Mayor and Council for approval.

GSD should work closely with the Mayor's Office to develop long-term strategies to identify grants, private financing, and any other alternative funding opportunities that do not impact the

General Fund to expand the City's Green Retrofit and Workforce Program whenever possible.

3. QECB PROGRAM ANALYSIS

The current Qualified Energy Conservation Bond Program consists of the retrofit of 52 City facilities to achieve energy consumption savings. The QECBs are federally-subsidized bonds that enable local governments such as the City to borrow money to fund energy conservation projects at very attractive borrowing rates over long terms. The QECB Program requires that the retrofitted buildings achieve at least 20% reduction in energy consumption. The three-year retrofit program was approved by Council and Mayor in September 2011. The QECBs repayment term is 17 years.

Although the specific percentage rate of reduction in energy consumption can be calculated based on energy use audit of various building systems (lighting, heating, ventilation, air conditioning, and others), there are several challenges in analyzing the actual monetary savings generated by the retrofits as a result of the following factors:

- The energy rate paid by the City changes over time. If the energy retrofit projects reduce consumption by 20% on the average for a building, the actual monetary savings will increase in tandem with any energy rate increases. Future rate increases are difficult to project in a long-term financial analysis. There are specific laws such as the California Global Warming Solutions Act of 2006 (Assembly Bill 32 or AB 32) that require California to reduce its statewide green-house gas emissions to 1990 levels by 2020. The State's Air Resources Board is tasked with implementing AB 32, and the City's efforts to comply with the legislation will impact energy rates. Over time, the energy retrofit project will lessen the financial impact of any future rate increases.
- The building utilization time is increased or decreased because of changes in service levels provided. For example, if the Library hours are increased after the energy retrofit project is completed; the total energy consumption of the building on monthly/yearly basis would increase significantly due to increased utilization.
- Each energy retrofit project has different life-cycle costs. A lighting system life-cycle can be as short as three to four years or can last a decade depending on type and usage level. HVAC (heating, ventilation, air conditioning) systems are often costly and project energy savings are heavily dependent on life-cycle costs of each system.

As a result, the above-mentioned factors and other energy retrofit related issues, it is difficult to produce more accurate estimates of energy savings. The information provided in the following table provides an overview of the projected cost and savings for the current QECB program.

Qualified Energy Conservation Bond Program

	<u>Annual</u>	<u>Total (17 years)</u>
Debt Service - average	\$964,409	\$16,394,953
Federal Interest Subsidy - average	-\$224,647	-\$3,818,999
<u>Net Debt Service</u>	<u>\$739,762</u>	<u>\$12,575,954</u>
	<u>Annual</u>	<u>Total (15 years)*</u>
Expected Energy Savings	\$1,286,456	\$19,296,840
 Total Net Savings		 \$6,720,886

* Accounts for construction time prior to energy savings being realized

The analysis shows that the QECB Program will provide approximately \$6.7 million in net savings over the 17 year repayment schedule. As the actual energy savings are quantified and audited for the QECB Program. The data will provide the basis for a more complete financial analysis. The data will allow for a plan to expand or extend the City Green Energy Program.

Attachments

ATTACHMENT 1

Draft Amendment

Existing Ordinance No. 174068 Chapter 132, Division 5 of the Los Angeles Administrative Code provides that the City may borrow funding from the City's Department of Water and Power for the purchase and installation of energy efficiency and conservation measures in City buildings and facilities. This amendment would allow for the inclusion of water efficiency and conservation measures, maintain a financial accounting of savings, ensure loan accounting and repayment, and provide for the future sustainability of all conservation programs from any and all sources of conservation funding.

Chapter 132, Division 5 of the Los Angeles Administrative Code, is amended to provide for an Energy and Water Conservation Program Fund.

THE PEOPLE OF THE CITY OF LOS ANGELES DO ORDAIN AS FOLLOWS:

Section 1. Chapter 132, Division 5 of the Los Angeles Administrative Code, is hereby amended to read:

CHAPTER 132

GREEN RETROFIT PROGRAM FUND Sec. 5.532 Creation and Administration of the Fund.

- a. There is hereby created and established in the Treasury of the City of Los Angeles a special fund to be known as the "Energy and Water Conservation Program Fund," hereinafter referred to in this Chapter as the "Fund."
- b. The purpose of the Fund shall be for the receipt, retention and disbursement of grant and other monies and property accepted from persons or entities or, otherwise received by the City for the purchase, installation and monitoring of energy and water efficiency measures in City buildings and facilities.
- c. All interest and other earnings, including energy and water rebates and incentives attributable to this program in the Fund shall be credited to the Fund and shall be devoted to the purposes thereof.
- d. The Fund shall be administered by the General Manager of the Department of General Services, or his or her designee, hereinafter referred to in this Chapter as

the "General Manager." Expenditures therefrom shall be authorized by the General Manager consistent with one or more provisions of Los Angeles City Ordinance No.180633, to fund the cost of purchasing, installing and monitoring energy and water efficiency measures in City buildings and facilities. For the purposes of this Section, expenditures shall include the transfer of expenditures incurred and/or paid by any other Funds administered by the Department of General Services. The General Manager shall report annually by January 31 on energy and other savings that result from completed energy and water remediation projects and provide recommendations for new projects to the Mayor and City Council with the intention of continuing and sustaining conservation projects in the City.

- e. All revenues and expenditures of the Energy and Water Conservation Program shall be accounted for in the Fund. The General Manager shall report to the City Council regarding and identifying all revenues and expenditures of the Fund, as well as the purposes for which the expenditures were made. Each report shall cover a fiscal year and shall be submitted within 60 days after the close of said fiscal year.
- f. At the close of any fiscal year, surplus money remaining in the fund shall remain in the Fund and shall not revert to the Reserve Fund to ensure the future sustainability of energy and water conservation projects.

Sec. 2. The City Clerk shall certify to the passage of this ordinance and cause the same to be published in some daily newspaper printed and published in the City of Los Angeles.

I hereby certify that the foregoing ordinance was passed by the Council of the City of Los Angeles at its meeting of

City Clerk

By

Deputy

City Attorney.

By

Deputy City Attorney