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FISCAL IMPACT REPORT

ORIGINAL DATE 2/25/17

SPONSOR SPAC LAST UPDATED _____ HB _____

SHORT TITLE State Facility Renewable Energy Use SB 227/SCONCS/SPACS

ANALYST Graeser

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	R or NR **	Fund Affected
Total		TBD				

Parenthesis () indicate expenditure decreases. ** R = recurring; NR = non-recurring

SOURCES OF INFORMATION

LFC Files

Responses Received From

Energy, Minerals, Natural Resources Department (EMNRD) on SCONC Sub/SB-227
 General Services Department (GSD) on SB 227

SUMMARY

Synopsis of Bill

Senate Public Affairs Committee Substitute for Senate Conservation Committee Substitute for Senate Bill 227 relates to state owned public buildings that are in the General Services Department (GSD) inventory. This bill would require the General Services Department to adopt rules for and issue a request for proposals to acquire renewable energy services for state facilities that provide a net utility cost savings and do not require up-front capital investment for deploying renewable energy infrastructure. The title of the bill uses the phrase, “where appropriate acquire renewable energy services for state facilities.” The bill defines “renewable energy services” to include solar or wind electric power, solar thermal or geothermal energy

FISCAL IMPLICATIONS

This bill does not contain an appropriation, nor does it specifically allow public-private partnerships, as do HB275 and SB243. These lacks are not critical. As mentioned below, EMNRD believes that solar implementation on state office buildings could come in the form of power purchase agreements (PPAs). The installation would be funded by the power purchaser. The state would only provide a location for the installation. With this arrangement, the utility would rent the location, resulting in a net decrease in utility bills. Since the capital and maintenance costs would be borne by the public utility, the monthly reduction in utility bills would be small compared to other forms of financing solar systems.

GSD commented on the original bill, "...GSD fully supports the implementation of energy efficient buildings and the use of renewable energy."

SIGNIFICANT ISSUES

EMNRD comments on Senate Conservation Committee Substitute SB 227 are applicable to the SPAC substitute:

... the intent of the [bill] is to implement renewable energy services for GSD owned state facilities. These renewable energy services are to be cash-flow positive and do not require up-front capital investment. This implementation would likely come in the form of 15 to 25-year power purchase agreements (PPAs).

The [bill] does not include energy efficiency improvements. This is counter to standard practices of lowering the overall energy consumption base load and then sizing the renewable energy system to the new load. PPAs allow the facility to use solar energy at a cheaper price than energy from the grid, but do not lower the energy use of the facility. GSD has more than 700 facilities, many of which house aging or outdated infrastructure. These facilities' energy consumptions will continue to rise if energy efficiency is not considered. The original bill allowed for coverage under the current statute in the energy efficiency standards for public buildings (Section 15-3-36, NMSA 1978) and the Public Facility Energy Efficiency and Water Conservation Act (Section 6-23-1, NMSA 1978). The Public Facility Energy Efficiency and Water Conservation Act is otherwise known as Energy Savings Performance Contracting (ESPC). Universities, cities, counties, and public schools are currently using this law. ESPC presents the opportunity to improve infrastructure such as lighting and heating and cooling systems with a turn-key process without the need for capital funding. The ESPC law requires the monitoring of energy savings and contains an energy savings guarantee. Projects are required by the ESPC law to be certified by EMNRD for reasonableness and accuracy.

In 2015 under a federal DOE competitive grant, GSD and EMNRD developed standard [Operating Procedures](#) to guide state agencies through the ESPC process. To support energy efficiency and renewable energy projects in state owned facilities, State Price agreement #15-000-14-05759AA is currently available to allow all governmental entities to contract with seven fully vetted, prequalified Energy Savings Companies. EMNRD is currently implementing a Third-Party Review (TPR) process to ensure that projects are implemented as designed to ensure energy savings are realized. There are currently over 10 projects throughout the state in various stages taking advantage of this law and price agreement. New Mexico government agencies (local governments and universities) completed over \$70 million in ESPC projects in the last three years.

PERFORMANCE IMPLICATIONS

EMNRD comments on Senate Conservation Committee Substitute SB 227 are applicable to the SPAC substitute.

... Governor Martinez's Energy Policy and Implementation Plan made recommendations for obtaining upfront capital to improve energy efficiency in state government buildings that can reduce energy usage. The recommendations were to:

- institutionalize a program for energy performance in public buildings that includes annual benchmarking, energy use disclosure, energy performance targets, and monitoring; and
- perform an evaluation of ESPC policies and address barriers to expanding this type of

financing in New Mexico.

GSD notes, there are over 700 buildings under the jurisdiction of GSD and many more under the ownership of other executive agencies.

LFC staff note that an accountability provision could be included here, similar to that required for tax expenditures. On an annual basis, GSD could comment on costs, financing arrangements, resources saved and other data to show the public short-term and long-term costs and benefits of this proposal.

As noted above, this bill might work best if some form of public-private partnership – such as the federal ESCO provisions (discussed in the next section of this bill review) – were adopted.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

In this session, SB143/SCORC and HB275 are related.

OTHER SUBSTANTIVE ISSUES

Although this SPAC substitute does not require energy conservation, EMNRD notes that many projects reduce energy use first, then acquire renewable energy services either directly or indirectly. The U.S Green Building Council indicates that paying attention to energy and resource conservation at the design stage may not be a cost, but a long-term benefit.¹

At first glance, the additional work and alternative materials needed to build green may seem like a burdensome cost, but closer attention reveals this perception to be misleading. If sustainability is viewed as an expensive add-on to a building, we would mistake efforts to reduce energy costs or improve indoor environmental quality as comparable to specifying a better grade of countertop or a more impressive front door. Under this approach, any improvement beyond a minimally code-compliant baseline looks like an added cost.

If, however, we consider energy improvements part of an overall process, we often find that the added costs are balanced by long-term savings. The initial expenditures continue to pay back over time, like a good investment. The best returns on these investments are realized when green building is integrated into the process at the earliest stages rather than as a last-minute effort. For instance, specification of more costly, high-performance windows may allow for the use of a smaller, lower-cost heating, ventilation, and air-conditioning (HVAC) system. More fundamentally, if we view sustainable design as part of the necessary functional requirements for building an energy-efficient structure and providing a safe, healthful environment, we can compare the cost of the green building with that of other buildings in the same class, rather than against an artificially low baseline.

A landmark study by the firm Davis Langdon found no significant difference between the average cost of a LEED-certified building and other new construction in the same

¹ <http://www.usgbc.org/articles/green-building-costs-and-savings>

category: there are expensive green buildings, and there are expensive conventional buildings. Certification as a green building was not a significant indicator of construction cost.

Interestingly, the public dramatically overestimates the marginal cost of green building. A 2007 public opinion survey conducted by the World Business Council for Sustainable Development found that respondents believed, on average, that green features added 17 percent to the cost of a building, whereas a study of 146 green buildings found an actual average marginal cost of less than 2 percent.

Green building is, however, a significant predictor of tangible improvements in building performance, and those improvements have considerable value. Studies have shown that certified green buildings command significantly higher rents. A University of California–Berkeley study analyzed 694 certified green buildings and compared them with 7,489 other office buildings, each located within a quarter-mile of a green building in the sample. The researchers found that, on average, certified green office buildings rented for 2 percent more than comparable nearby buildings. After adjusting for occupancy levels, they identified a 6 percent premium for certified buildings. The researchers calculated that at prevailing capitalization rates, this adds more than \$5 million to the market value of each property.

ALTERNATIVES

Energy Savings Performance Contracts (ESPCs), also known as Energy Performance Contracts, are an alternative financing mechanism authorized by the United States Congress designed to accelerate investment in cost effective energy conservation measures in existing Federal buildings.[1] ESPCs allow Federal agencies to accomplish energy savings projects without up-front capital costs and without special Congressional appropriations. The Energy Policy Act of 1992 (EPACT 1992) authorized Federal agencies to use private sector financing to implement energy conservation methods and energy efficiency technologies.

An ESPC is a partnership between a Federal agency and an energy service company (ESCO). The ESCO conducts a comprehensive energy audit for the Federal facility and identifies improvements to save energy. In consultation with the Federal agency, the ESCO designs and constructs a project that meets the agency's needs and arranges the necessary financing. The ESCO guarantees that the improvements will generate energy cost savings sufficient to pay for the project over the term of the contract. After the contract ends, all additional cost savings accrue to the agency. The savings must be guaranteed and the Federal agencies may enter into a multiyear contract for a period not to exceed 25 years. See footnote 2.

LG/jle/sb/al

² https://en.wikipedia.org/wiki/Energy_Savings_Performance_Contract