

STATE OF IOWA FACILITIES IMPROVEMENT CORPORATION

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The State of Iowa currently spends about \$40 million on energy for state-owned buildings. Most of this energy is obtained from other states and foreign countries. To reduce both the state's energy bill and the proportion of energy dollars spent outside the state, the Iowa Energy Policy Council has designed a program to improve the energy efficiency of state-owned buildings.

While some savings can be achieved by reducing energy waste and making low-cost improvements, most of the remaining opportunities to save energy require substantial capital outlays. The Energy Policy Council estimates that an investment of \$40 million in permanent conservation improvements would reduce energy consumption by 20 to 25 percent, thereby saving about \$10 million dollars per year at current energy prices.

The principal barrier to a conservation investment program of this magnitude is obtaining the necessary capital. For the state to pay for the needed energy improvements from its annual operating budget, either a tax increase or substantial shifting of funds from other programs would be required. Issuing general obligation bonds is another possible approach, but one that, historically, Iowans have been reluctant to employ.

"Shared savings" is a recently-developed financing option that allows energy users to obtain conservation improvements without making any up-front investment; instead, improvements are gradually paid for by relinquishing a share of the savings to the project financier for several years. While shared savings can be attractive for energy users without access to capital, and while it offers certain risk-management advantages, the Energy Bureau concluded that this type of financing was not the most advantageous in the long run. Because the state will implement improvements with an aggregate payback of under 6 years, some improvements will require up to 10 years or more to reach payback. Shared savings companies are often reluctant to finance long payback improvements. Furthermore, the state would like to keep the profit margin required by a shared savings company.

Another financing possibility is to obtain energy efficiency improvements through lease-purchase financing. A lease-purchase agreement is a type of installment plan, under which an agency leases conservation improvements by making regular payments of principal and interest. At the end of the lease term the improvements become property of the state. The Energy Bureau determined that lease-purchase financing offers the state several advantages, including access to capital at tax-exempt interest rates, and 100 percent financing of the initial costs of improvements. Furthermore, the agreements will be structured to ensure that the value of the energy savings from the improvements in any period would always be greater than the required lease payments. Energy savings will also be backed by an insurance policy.

Until recently, Iowa's state agencies did not have the authority to sign lease-purchase agreements for energy improvements. The Energy Bureau worked with legislators to write a bill authorizing lease financing of conservation improvements (Senate File 303) and, in April 1985, this bill was passed and signed into law. With this new legislation as a starting point, the Energy Bureau has designed a lease-purchase program for state agencies that coordinates the necessary engineering, financing, and installation tasks. Key features of the program are:

- o The Energy Bureau and its consultants will identify, select, and implement conservation improvements.
- o Agencies will acquire the improvements through lease-purchase agreements. The payments will be guaranteed to be less than the value of the savings.
- o The improvements will be leased to the agencies by a new nonprofit corporation -- the State of Iowa Facilities Improvement Corporation (the Improvement Corporation) -- that will raise capital by selling tax-exempt bonds to investors. The Improvement Corporation will maintain title to the improvements until all payments are made.

The Energy Bureau anticipates that this program will finance \$40 million worth of conservation improvements for state agencies over a four-year period, beginning in 1986. During the program's first year, improvements will be financed for three agencies: Department of Corrections, Department of Human Services, and Department of General Services. The Council will initiate a similar program for public schools in July and has begun to explore how the basic program model could be adapted for use by Iowa's local governments, hospitals, private schools and other non-profit organizations.