Legislative Analysis

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COMMUNITY COLLEGES: EXTEND TERM OF ENERGY IMPROVEMENT CONTRACT

House Bill 5806 (reported from committee as Substitute H-1)
Sponsor: Rep. Al Pscholka
Committee: Energy and Technology ***(Enacted as Public Act 485 of 2014)***

First Analysis (10-31-14)

BRIEF SUMMARY: The bill would extend the maximum length of time (from 10 years to 25 years) for a community college to repay an energy savings performance contract and would allow a contract for a project where the energy savings would not cover the entire cost.

FISCAL IMPACT: By extending the period for energy conservation installment contracts or notes, the bill could reduce the annual contract- or note-related payments made by affected community colleges. The bill would have no fiscal impact on the state or local units of government.

THE APPARENT PROBLEM:

As often is the case, legislation enacted in one time period may not address future needs or circumstances. Public Act 148 of 1984 specifically authorized community colleges to finance energy conservation improvements for their facilities by resolution of their governing body. These improvements may be achieved by means of an installment contract or by issuing notes, for which the period of repayment cannot exceed 10 years. In addition, the contract or note may provide that the improvements would be paid for only if the energy savings were sufficient to cover their costs.

Advances in energy efficient building materials, equipment, and appliances have improved greatly since PA 148 took effect. However, both the 10-year cap on repayment and the provisions that allow only allow contracts or notes for projects that can be repaid in total from energy savings have limited the legislation's effectiveness.

For example, a new roof or HVAC system can greatly reduce a community college's costs of heating and cooling its buildings. New windows can also result in significant energy savings. However, such improvements come with a price tag that often cannot be repaid within the 10-year maximum repayment period, nor are the energy savings – though substantial – great enough to pay for the entire project. It has been suggested that PA 148 be amended to allow greater flexibility for community colleges to explore energy conservation projects that have the potential to reduce energy expenditures but which do not fit within current parameters.

THE CONTENT OF THE BILL:

Currently, when financing energy conservation improvements, a community college can enter into an installment contract or issue notes for a time period not to exceed 10 years.

House Bill 5806 would amend the Community College Act to instead allow the repayment period not to exceed 25 years from the date of installation of the energy conservation improvements.

Further, the act currently allows the contractual agreements to provide that the cost of the energy conservation improvements be paid only if the energy savings are sufficient to cover their cost. This provision would be eliminated.

MCL 389.122

ARGUMENTS:

For:

As noted earlier, due to the cost of certain types of energy efficiency projects, a longer payback period than the 10-year maximum currently available under statute is needed. For example, replacing an aging HVAC system with a more efficient one, such as installing a geothermal heating/cooling system, can save a lot of money for community colleges (and therefore taxpayers) and be more beneficial to the environment. Such systems are expensive, though, and the monthly payment under a 10-year repayment plan would be cost-prohibitive for many, if not most, community colleges. In another example, switching to LED lights will greatly lower the annual energy needed to light buildings at community colleges and the bulbs will last longer than other ones currently in use, resulting in additional savings. However, the savings may not be great enough to cover the entire cost of a college's retrofit within the useful life of the bulbs. The bill addresses these concerns by extending the maximum term of repayment to 25 years; this is the same length of time allowed for contracts for energy efficient retrofits to federal facilities. The bill also removes statutory language that some feel restricts the installment repayment only to projects that can be totally covered by the energy savings within the maximum repayment period.

Some see the bill as doing more than just providing flexibility for community colleges to update old or energy-inefficient equipment. They see it as being more fiscally responsible for taxpayers, better for the environment, and good for the economy as dollars currently spent on wasted energy could instead be redirected to equipment upgrades and construction projects that will create jobs and stimulate local economies.

POSITIONS:

A representative of the Michigan Community College Association testified in support of the bill. (9-23-14)

A representative of Ameresco testified in support of the bill. (9-23-14)

Lake Michigan College submitted written testimony dated 9-18-14 in support of the bill.

The National Association of Energy Service Companies (NAESCO) submitted written testimony dated 9-19-14 in support of the bill.

The Michigan Energy Innovation Biz Council indicated support for the bill. (9-23-14)

Michigan League of Conservation Voters indicated support for the bill. (9-23 & 9-30-14)

The Michigan Sierra Club indicated support for the bill. (9-23-14)

The Michigan Environmental Council indicated support for the bill. (9-23-14)

Michigan Efficient Energy Contractors Association (MEECA) indicated support for the bill. (9-23-14)

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