

W. 10.a.

Memorandum Date: February 18, 2009
Order Date: March 4, 2009

TO: Board of County Commissioners

DEPARTMENT: Management Services

PRESENTED BY: David Suchart, Director

AGENDA ITEM TITLE: ORDER/In the Matter of Awarding a Contract for Phase 2 of the Performance Contracting Program to McKinstry Essention, Inc., as the Energy Services Company (ESCO)

I. MOTION:

Move Approval of Order 09 -3 -4 - In the Matter of Awarding a Contract for Phase 2 of the Performance Contracting Program to McKinstry Essention, Inc., as the Energy Services Company (ESCO).

II. AGENDA ITEM SUMMARY:

In April 2008, McKinstry Essention, Inc. (McKinstry), was awarded Phase I of the Performance Contracting Program. Phase I was a Technical Energy Audit (TEA) of the Lane County Adult Corrections facility (LCAC). At the end of that process, and based on decisions by the Eugene Water and Electric Board (EWEB) with regard to steam generation, it was decided to expand the scope to include steam requirements for the Lane County Courthouse and Public Service Building (Courthouse/PSB).

III. BACKGROUND/IMPLICATIONS OF ACTION:

A. Board Action and Other History

In 2004, at the request of the Jail Commander, Management Services met with corrections facilities staff to discuss various options for upgrading the HVAC systems in the main facility. The estimated cost was thought to be greater than \$1 million and, given the nature of a corrections facility, it was considered critical to ensure round the clock operation.

One proposed consideration for financing was the use of energy saving performance contracting. Performance contracting is a method to purchase energy efficient improvements in buildings. There are three

features of this methodology that address the need to replace old inefficient equipment in an environment where there is a lack of funds:

1. A single procurement is used to purchase a complete package of services in which one contractor (the ESCO) is accountable for guaranteed maximum pricing, energy savings, and systems performance.
2. Project financing of the entire project costs, which are offset by annual energy savings, so no up front money is needed.
3. An energy savings performance contract is designed to pay for itself.

The concept was brought to the Facilities Committee and approved for a pilot project at LCAC. The project was put on hold during the DOMC remodel. An RFP was developed in late 2007 and sent out for response in January 2008.

In April 2008, the contract was awarded to McKinstry, and the process continued with a Technical Energy Audit.

B. Policy Issues

Performance Contracting has been in use since the 1970s. This method has been utilized by many school districts, local, municipal, and State governments with the need for efficient energy systems and a lack of available capital funds, which has made it both useful and popular. The State of Washington has had an elaborate system for cooperation between the State and local government and schools. The Oregon Department of Energy has recently begun promoting it.

C. Board Goals

Protecting the public's assets by maintaining, replacing, or upgrading the County's investments in systems and capital infrastructure, and identifying ways to improve space and facilities conditions to better serve citizens, insure the adequate maintenance of existing infrastructure, and provide an environment conducive to high employee productivity, as outlined in the Goals and Strategy B.1.d. of the County's Strategic Plan, will be served by the completion of these projects.

D. Financial and/or Resource Considerations

Given the County's financial condition, utilization of a process that could employ current revenue streams without effecting operations should be

given consideration as a method for replacement of aging equipment and taking advantage of newer technologies such as solar.

The basic premise is that, after completion of Phase 1, which is an audit of current systems, the ESCO will provide an analysis of improvements that will save energy costs. That savings is used to pay for the improvements. It will also be financed in part with incentives from utilities, the Energy Trust of Oregon, and from State of Oregon Business Energy Tax Credits. The ESCO is responsible for documenting both the revenue and expenditure streams and ensuring the payoff, which is generally ten to fifteen years.

The basic outline of the phases is as follows:

Phase 1, Technical Energy Audit – A menu of measures is explored and the County selects measures to pursue to a final project.

Phase 2, Project Development Plan – Develops final guaranteed maximum pricing and savings.

Phase 3, Design and Construction – Project is constructed and commissioned.

Phase 4, Measurement & Verification – Annual savings are verified and the ESCO funds any shortfalls for each year of the contract.

During Phase 4 the ESCO becomes responsible for guaranteeing the savings.

E. Analysis

At the conclusion of the TEA, it was determined that the cost of upgrading the energy systems at LCAC would require \$1.7 million in order for the payoff to occur within a 20-year horizon. With the EWEB decision to phase out steam production, the team looked at options to bring the payoff to less than 20 years, and still accomplish the Sheriff's Office goals of ensuring the reliability of the energy systems at LCAC. In order to accomplish this, the decision was made to get the Courthouse/PSB off steam as well, and pull the replacement of the chillers for LCAC. A quick audit of the Courthouse system was conducted, and this combination provided an option that could pay for itself within the 20-year timeframe.

F. Alternatives/Options

1. Continue to Phase 2 of the Performance Contracting Program to implement all recommended energy upgrades to LCAC, as well as

the steam conversion at the Courthouse/PSB. This option would require an infusion of \$1.7 million. Failure to implement this option would leave the LCAC vulnerable should the 30-year-old chiller system fail.

2. Continue to Phase 2 of the Performance Contracting Program to implement the steam conversion program at both LCAC and the Courthouse/PSB. Implementation of this, plus some other energy upgrades at the LCAC, would have a 20-year payoff. Phase 2 will take approximately 60 days.
3. Stop the Performance Contracting Program at this time. This would leave the County vulnerable to the increased cost of steam once EWEB has phased out its program.
4. Work with EWEB on a steam conversion program only. The financial implications of this are unknown at this time.

IV. TIMING/IMPLEMENTATION

Contract with McKinstry and proceed with Phase 2, the Project Development Plan. At the end of Phase 2, a report back to the B/CC would occur prior to moving to Design and Construction.

V. RECOMMENDATION

Implement Option 2 and proceed with Project Development.

VI. FOLLOW-UP

Upon adoption by the B/CC, a contract to implement Phase 2, the Project Development Plan, will be prepared for signature by the County Administrator and McKinstry. At the same time, exemption documents to add the Courthouse/PSB to the agreement with McKinstry as the County's ESCO will be prepared for Board approval.

VII. ATTACHMENTS

Board Order
McKinstry Power Point Presentation
Option Spreadsheets

IN THE BOARD OF COUNTY COMMISSIONERS OF LANE COUNTY, OREGON

ORDER NO. 09 -3 -4 -

) IN THE MATTER OF AWARDING A CONTRACT
) FOR PHASE 2 OF THE PERFORMANCE
) CONTRACTING PROGRAM TO MCKINSTRY
) ESSENTION, INC., AS THE ENERGY SERVICES
) COMPANY (ESCO)

WHEREAS, Lane County has need for upgrading and replacing its HVAC systems at the Adult Corrections facility, and

WHEREAS the project has complexities due to phasing and maintaining tenant operations, and

WHEREAS, Phase 1 of the Performance Contracting Program, the Technical Energy Audit (TEA) has been completed by McKinstry Essention, Inc. (McKinstry), and

WHEREAS, Eugene Water and Electric Board (EWEB) has determined it is no longer cost effective to produce and sell steam to its customers, and will phase out of that program, now, therefore,

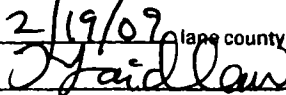
IT IS HEREBY ORDERED that the firm of McKinstry is hereby awarded the contract for Energy Services Company services for Phase 2 of the Performance Contracting Program, and

IT IS FURTHER ORDERED that the County Administrator is delegated authority to execute such a contract.

Dated this 4th day of March, 2009.

Peter Sorenson, Chair
Board of County Commissioners

APPROVED AS TO FORM

Date 2/19/09 lane county

OFFICE OF LEGAL COUNSEL