

BILL # HB 2766

TITLE: omnibus energy act of 2008

SPONSOR: Mason

STATUS: As Amended by Senate RULES

PREPARED BY: Eric Billings

FISCAL ANALYSIS

Description

This bill requires state and local governments and private industry to increase energy efficiency. Specific measures address building standards, vehicle efficiency, and renewable energy sources. These measures are identified in *Table 1* below.

Estimated Impact

The bill as amended includes several reporting requirements, a feasibility study, rule making, new building standards, and energy use reduction goals. Given both the short time frame to respond in a fiscal note and the wide-ranging nature of the bill, it is difficult to estimate the impact with any degree of certainty. In the short term, the bill could generate total fund costs of \$5 million to comply with the new building standards. These standards, however, would only apply if the state would be able to offset its costs in the long run through energy savings.

Other provisions such as the energy use reduction and renewable energy requirements would appear to have short term costs and long run savings. We do not currently have estimates of the magnitude of these particular cost impacts.

Table 1 summarizes the potential impacts of this bill on the state:

Table 1	
Provisions of HB 2766 as amended by Senate Rules	
State Building System	
LEED Building Standards	LEED standards are estimated to increase capital costs by between 1% to 10% and reduce utility costs by 15% to 35%. The capital costs could be \$5 million including all fund sources; however, projects would only proceed if long run utility savings are projected to exceed increased capital costs.
Energy Usage Reduction	Reducing energy usage is likely to increase up-front and capital costs; however, reducing usage also reduces on-going operating costs.
Renewable Energy Requirements	Using renewable sources may require the state to pay a premium for energy.
Comm. Colleges/Universities	
Energy Star Equipment	Requiring Energy Star appliances is likely to increase up-front costs; however, these costs are offset by lower energy costs over the life of the equipment.
Department of Commerce	
Energy Office - New Responsibilities	The department did not provide an estimate, but new responsibilities like reporting and technical assistance requirements are likely to require increased staff and resources.
Department of Environmental Quality (DEQ)	
Fuel Study	DEQ estimates \$150,000 from the Air Quality Fee Fund.
Vehicle Refrigerants Outreach	DEQ states outreach would be conducted with existing resources.

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Department of Transportation

Vehicle Idling Signage

ADOT estimates that posting signs at all ports of entry detailing state idling laws would cost the State Highway Fund \$50,000.

Department of Housing

Building Guidelines

Requiring higher building standards would increase construction costs.

Department of Education

Property Valuation - Appraisal

The Department of Revenue reports that changes to the appraisal standards will not change current practice; this would mean no change in Basic State Aid costs.

Joint Legislative Budget**Committee (JLBC) Staff**

Performance Contract Analysis

Analyzing performance contracts could result in additional workload dependent on the number and complexity of performance contracts in a given year.

Analysis

This bill affects several state agencies including those in the state building system, namely the Department of Administration (ADOA), the Department of Transportation (ADOT) and the Universities; the Joint Legislative Budget Committee (JLBC); the Department of Environmental Quality (DEQ); the Department of Commerce; and the Department of Housing. The details of these changes are discussed below.

State Building System

The bill requires that new buildings constructed by the state conform to Leadership in Energy Efficiency Design (LEED) standards. The U.S. Green Building Council provides the LEED standards which are a national standard for developing sustainable buildings. There are 4 categories of LEED certification: basic, silver, gold, and platinum. Certification points are earned for satisfying environmental criteria which determine a facility's LEED certification level. The bill does not specify which standard is to be used, but leaves specific requirements to the Department of Commerce Energy Office. This analysis assumes that LEED silver standards would be used, consistent with a 2005 Executive Order instructing agencies to construct state-owned buildings according to LEED silver standards.

Based on this assumption, it is estimated that construction costs would increase by 1% to 10% using these standards. This is based on average cost estimates from ADOA, ADOT, School Facilities Board (SFB), the Universities, and some Community College districts. HB 2311 would have implemented LEED silver standards for new buildings and building renovations. According to the HB 2311 fiscal note, ADOA estimates LEED silver standards would have an increased cost of 3% to 5% or about \$1.3 million to \$2.2 million annually. The Universities estimate an annual cost increase of 1% to 2% or about \$2.1 million to \$2.9 million. If LEED basic standards were implemented, the estimated costs would decrease while the costs would increase under LEED gold or platinum certification. In the long-term, these up-front costs are expected to be offset with between 15% and 30% lower utility costs, assuming LEED silver standards. Under this bill, if an analysis shows that long-term energy savings would not offset increased building costs, these requirements would not apply.

The bill also requires ADOA, the Board of Regents, and ADOT to reduce energy usage. Existing law requires energy use to be 15% below FY 2002 levels by 2011. This bill would require additional reductions to 20% below FY 2002 levels by 2015 and 30% by 2020. Reducing energy consumption can require an up-front cost, often from replacing existing equipment with more efficient equipment or by making building upgrades. The magnitude of these costs depends on many variables, including the extent of the reduction, the current status of buildings, and the current state of technology. These costs may be offset in the long-term with lower utility costs.

Additionally, the bill requires that by FY 2014, 10% of state utilities come from renewable and non-polluting sources, which may require the state to pay a premium for utilities. However, as renewable sources increase as a portion of total sources of energy, any premium would decrease.

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Universities and Community Colleges

Currently, state agencies are required to purchase Energy Star standard equipment unless a cost-benefit analysis shows that increased purchase costs are not offset by decreased utility costs over the life of the equipment. This bill adds Universities and Community Colleges to the existing requirement. The bill will have a short run cost as energy efficient products are typically more expensive. The magnitude of the impact would depend on the products purchased, the price differential, the level of utility savings and the products' useful life.

Department of Commerce

The bill includes several new requirements involving the Department of Commerce's Energy Office. These include 2 new reporting and tracking requirements, technical assistance to school districts and ADOA, monitoring LEED standards for use in state buildings, receiving contracts for energy efficiency and renewable energy projects, and receiving several reports and data from local and state agencies. The Department of Commerce has not provided an estimate of these costs; however, it is likely that such an expansion of the Energy Office will require additional resources.

Department of Environmental Quality

This bill requires DEQ to conduct a study on the technical feasibility and cost effectiveness of reducing greenhouse gas emissions from motor fuels sold in Arizona and to report its findings by December 31, 2010. DEQ has completed similar fuel studies in the past, and it estimates that this new study will cost approximately \$150,000. The study would be funded through the Air Quality Fee Fund.

DEQ would also be required to establish an outreach program describing the prohibition against releasing vehicle refrigerants into the environment. The department states it would use existing Air Division outreach staff to provide the additional resources required by this program.

Department of Housing

This bill requires the Department of Housing to include the Energy Star Quality Home standards in their minimum guidelines for multi-family housing projects receiving state funding. These standards are likely to raise construction costs by less than 10%. These projects do not currently receive General Fund support.

Department of Transportation

In addition to the building requirements previously discussed, this bill would require ADOT to post signs at all department operated ports of entry. These signs would delineate the state vehicle idling standards, which are modified by this bill. ADOT operates 22 fixed ports of entry, as well as 12 mobile stations. They estimate a need for 100 signs at \$500 each, for a total cost of \$50,000 from the State Highway Fund.

Property Valuations

The bill also includes a change to the standard appraisal method for property valuations. This change excludes specific energy saving devices, including solar energy systems and high efficiency building components, from property valuations. As this change could lower assessed property values, it could increase the state cost for education, which is funded in part through property taxes. However, the Department of Revenue reports that property valuations do not currently reflect these items as added home value, so only a minimal fiscal impact is expected.

Joint Legislative Budget Committee

The bill requires JLBC Staff to perform a fiscal analysis of any ADOA energy performance contract. Energy performance contracts are agreements between ADOA, contractors, and utilities in which the cost savings are used to pay the contractor. Cost savings also include payments when excess energy produced by the state through solar or other means is resold to utilities.

The JLBC workload will depend on the amount of performance contracting in a given year. Based on the assumptions used in deriving the LEED construction cost estimates, ADOA, on average, begins construction on 1.1 buildings per year. It is possible that there will be additional performance contracts involving existing buildings.

Local Government Impact

The bill allows school districts to use the procurement rules set forth by the State Board of Education when contracting for energy saving projects valued at less than \$500,000. It also establishes local "energy and water savings funds" to receive capital investment monies for energy saving projects and pay debt service costs on those projects. These changes may

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encourage more projects, and, as with many of these measures, there would be up-front costs potentially offset by long-term savings.

In addition, the bill requires school districts to 1) reduce their energy use by 10% per square foot by July 2011, 15% by July 2015 and 20% by July 2020 (using FY 2002 as their baseline year); 2) reduce engine idling times for school buses; and 3) have at least 10% of their energy come from renewable sources by July 2013. The impact of these measures is the same as similar measures described in the State Building System section above.

6/2/08