

Hawaii Success Story – A Performance Contracting Program

The State of Hawaii has been leading the surge on performance contracting since the late 1980s, making waves in all levels of government throughout the islands. The State Energy Office in the Department of Business, Economic Development and Tourism's (DBEDT) has generously provided long-time expert technical assistance to building managers of all state and local government sectors. Along with tools, resources and ongoing support, DBEDT has brought performance contracting from an unfamiliar and untrusted practice to an institutionalized solution to meet environmental and budget goals. Results keep rolling in – almost \$92 million in completed projects in higher education, counties, a city and healthcare, with another \$35 million getting underway in a second-phase state agency project, and a probable \$35 million project in negotiations with the state's public housing authority.

Other funding priorities often leave energy efficiency unfunded in government facilities that have long faced rising energy prices and the need to replace outdated equipment. "That's why Hawaii's Department of Business, Economic Development and Tourism (DBEDT) encouraged state and local governments to incorporate performance contracting as a way to finance their upgrades and why we established guidelines for using this unfamiliar approach," said Elizabeth Raman, DBEDT. "Buildings represent one of the largest energy efficiency opportunities and the State will continue to work with business and government agencies to encourage performance contracting opportunities," said Theodore Peck, Energy Administrator, Hawaii State Energy Office. "Our goal is to build a clean energy future as part of the state's Hawaii Clean Energy Initiative." Governor Lingle launched the Hawaii Clean Energy Initiative, in partnership with the U.S. Department of Energy, aiming for 70 percent of Hawaii's energy to come from clean sources by 2030 (40 percent from renewable energy and 30 percent through energy efficient measures).

Big Waves on All Fronts

Challenge: Increase acceptance of performance contracting in all state and local government sectors.

Solution: Provide technical assistance to facility decision-makers.

DBEDT contracted with a performance contracting expert and assigned the consultant directly to facility decision-makers so they could explore the risks and benefits within their own operations, work through the process with in-house

"Improving the energy efficiency of State buildings will allow us to save taxpayer money on the State's energy bills, while reinvesting in the infrastructure of our public buildings," said Governor Lingle.

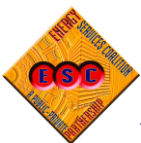
- Governor Linda Lingle, State of Hawaii



Hawaii's State Capitol

procurement and contracting authorities, initiate and oversee a project with confidence, and be ensured that savings would indeed pay for the projects.

With just one consultant the approach was applied consistently across all facilities with lessons learned rolled in. "We made a huge commitment to provide in-depth technical assistance from soup to nuts," said Raman, "and the results show that it paid off."



Hawaii Success Story – A Performance Contracting Program

Challenge: Develop a credible program to support performance contracting efforts.

Solution: Develop processes for a consistent approach in the state.

To support the technical assistance, DBEDT developed guidelines with model procurement and contracting documents. A more recent partnership with a leading state agency took this a bit further (see below) so DBEDT can now also present a new streamlined process for state government that is also open for other governments to use.

Solution: Develop pilot projects.

DBEDT found a willing participant in the University of Hawaii at Hilo. The university procurement procedures did not allow for the performance contracting approach - DBEDT's program provided a break-through alternative financing option. Started in 1998, the \$2.9 million project upgraded 50 buildings and succeeded throughout its 10-year guarantee period.

At the end of the project DBEDT conducted a risk assessment survey and integrated the lessons learned into the program guidelines. Raman said "since performance contracts are long-term, establishing good relationships between the parties involved is crucial to project success. We recommend a project team to review all documents and see the project through." The university's early success influenced several state and county projects to follow.

Challenge: Encourage the public housing authority to implement a project in residential buildings.

Solution: Provide technical assistance to the public housing authority.

With DBEDT's help, Hawaii's Public Housing Authority (HPHA) explored the option of

performance contracting, working through the many considerations - benefits, risks, processes and legality, now dealing with the recent changes in the financing market and new HPHA plans to sell or redevelop some of the properties that had been under consideration. "We've come a long way - moving very slowly but continuously moving forward - but we don't have touchdown yet," said Marcel Audant, HPHA.

"It's looking like a \$35 million project now that we've reviewed the ESCO's audit and discussed what measures fit best. It's a balancing act to lay out what we want in the field and then get it into the financing package."

For the performance contract, 65 of HPHA's federally-funded properties are considered. There is lots of diversity in buildings and potential measures. Each property has one to six buildings, with four to 100 units in each building, some in the city and some in smaller communities. Most residences have no heating or cooling but electricity and water costs are high so water-saving devices and lighting improvements are on the list of 19 different measures.

DBEDT's technical consultant is one of the few experts in rules for implementing performance contracting projects in federally-funded housing authority properties. "DBEDT has been bearing the expense. It's not often that one branch of state government pays for another branch of government. We would not be where we are now without the consultant and DBEDT's support so we're very appreciative," said Audant.

Challenge: Encourage state facilities to implement projects.

Solution: Work with the agency that can lead by example and put together processes.



Hawaii Success Story – A Performance Contracting Program

DBEDT provided technical assistance, in the form of an expert consultant, to The Hawaii Department of Accounting and General Services (DAGS). DAGS committed to performance contracting for its own buildings and set out to demonstrate the process for all state departments, leading by example.

A \$34 million energy performance contract in state facilities is just completing construction, paid for by \$3.2 million in annual operational savings and leveraged bond funds. A second phase for other DAGS buildings throughout the islands is now getting underway with another 25 buildings and a projected cost of another \$35 million.



Kalanimoku Building – DAGS headquarters

While going through the process for its projects, DAGS established streamlined procurement practices to make it easier for other departments. The DAGS team stepped through ESC's recommended Best Practices, pre-qualifying ESCOs for state government projects and developing model pre-approved contracts. DAGS became its own first customer, easily selecting an ESCO from the pre-qualified list for its own buildings and using the pre-approved contracts that the team had pored over and customized to meet state requirements. Other agencies are already following DAGS' lead, using the process, pre-approved contracts and pre-qualified ESCOs.

DAGS started a users group for facility managers to share their experiences and learn from each other as they manage these large-scale comprehensive projects and track the savings.

"Energy savings performance contracting provides a comprehensive approach to looking at the whole building and improving operational efficiency with a performance guarantee," said Russ Saito, State Comptroller, DAGS.

AT A GLANCE

ESC's Best Practices in Action

State Leadership (point person; program)	X
Legislation and Governor's Support	X
Consensus – procurement/legal/finance	X
Pre-Qualified ESCOs	X
Pre-Approved Contracts	X
Public/Private Partnership (ESC Chapter)	
Project Oversight; Technical assistance	X
Education & Outreach	X
Program Funding through Savings	

CONTACT

Elizabeth Raman, Ph.D.

Energy Conservation Program Specialist

Department of Business, Economic Development and Tourism

235 South Beretania Street, Room 502; P.O. Box 2359

Honolulu, HI 96804

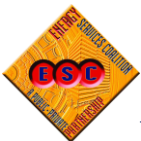
808-587-3806

eraman@dbedt.hawaii.gov

www.hawaii.gov/dbedt/info/energy/

The **Energy Services Coalition** is a national nonprofit organization composed of a network of experts from a wide range of organizations working together at the state and local level to increase energy efficiency and building upgrades through energy savings performance contracting.

Please visit: www.energyservicescoalition.org



Energy Services Coalition