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Cities sign up for guaranteed savings

Some metro cities are getting a guarantee from contractors that improving public buildings is win-win-win.

By **JIM ADAMS**, Star Tribune

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It seems like a taxpayer's dream: Cities across the metro area are making major upgrades to the heating and cooling systems in public buildings and ice arenas, and the improvements pay for themselves through energy savings.

In Richfield, for example, a high-efficiency system is being installed to keep the ice cold and fans warm at the city's 38-year-old arena, and the company handling the work guarantees that the energy savings will cover the bill.

"It's a win-win-win," said Steve Lampi, mayor of Brooklyn Park, another city making such improvements. It saves the city money and energy and is good for the environment, he said.

Guaranteed-savings contracts work like this: A city chooses a company to evaluate energy improvements. The company then oversees the installation of projects the city wants and guarantees that energy savings will cover the work, the company's fee, and up to 20 years of debt service on money the city borrows to pay for the projects. The company posts a performance bond to ensure that it will pay the difference if the savings are less than promised.

In Brooklyn Park, Lampi and the City Council have given preliminary approval to possibly the biggest guaranteed-savings deal in the metro suburbs, a \$6.3 million contract with McKinstry, a Seattle-based firm, to oversee energy-saving installations.

Similar contracts have been approved in Woodbury, Richfield, Eden Prairie and Anoka. The Minneapolis Public Housing Authority recently signed a \$33.6 million contract with Honeywell that includes replacing old boilers and hot water heaters in 40 of the city's senior high-rises, a housing official said.

Energy contracts also are being considered in Eagan, Plymouth, Coon Rapids and other cities, officials said. In addition to McKinstry and Honeywell, Johnson Controls and Harris Companies have bid on guaranteed-savings

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contracts.

In Brooklyn Park, more than 30 projects are planned, but most of the money will pay for a geothermal system to heat and cool the Community Activities Center and assist the refrigeration system for the center's two ice rinks, said Jon Thiel, operations and maintenance manager. The energy savings are guaranteed to pay for the projects within 15 years, he said.

Greg Ackerson, development manager for McKinstry, said that the city and his company pre-qualify subcontractors "so we are assured of the work quality and can stand behind our guarantees of performance and cost."

Too good to be true?

Guaranteed-savings contracts sounded too good to be true to Eden Prairie officials. But after three years and two contracts with McKinstry, the energy savings are on target, said City Manager Scott Neal. Energy savings are paying for the costs of about \$2.5 million in 10-year bonds sold to finance ice arena and other improvements, Neal said. The city is discussing a third contract with the firm.

"The thing that convinced me to give it a try is

the rigor that McKinstry uses to calculate the [energy use] baseline," Neal said. "All savings come from a firm baseline year, and constantly measuring to see if you are getting the savings they said you were going to get."

McKinstry provides annual reports showing projects' energy use and savings. Projects range from major heating and cooling system upgrades to putting a motion sensor on pop machines that shuts off cooling on weekends or if nobody walks by for a certain period, Neal said.

Ice rinks prime for savings

Woodbury has a \$2.3 million contract with Harris Companies to install a geo-exchange system for its two indoor ice rinks, said Bob Klatt, parks and recreation director. Harris also has a nearly \$1.3 million contract to upgrade Richfield's two ice rinks with high-efficiency heating and cooling systems. Work is underway on both city contracts and is expected to be done by year's end, officials said.

Richfield's facilities manager, Brandon Klement, said the guaranteed contracts "are great for a facility such as ours that is 38 years old. ... With all the tightening up on budgets, and a lot [of ice rink] mechanical

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issues coming due in our facility and there is no money to fix it up."

The agreements are covered by state laws, passed in the 1980s, that waive competitive bidding for cities, schools and other government units that enter into a "guaranteed energy saving contract." Since 2007, when the law was amended to require filing the contracts with the state Commerce Department, 20 such agreements, mostly involving schools and colleges, have been filed, said commerce spokeswoman Nicole Garrison-Sprenger.

The cities have the option of using grants or their own funds to do more projects than are covered by the agreements or to reduce the term of bonds. For example, Woodbury and Brooklyn Park used some city funds and federal stimulus grants to help pay for energy improvements.

Klatt said Woodbury used more than \$700,000, mostly stimulus funds, to reduce the amount it borrowed to less than \$1.7 million worth of 10-year bonds, which will be repaid with energy savings. After the bonds are paid, the city gets the remaining energy savings, which over 20 years are expected to total \$3.9 million. He said the city could have paid nothing for the whole \$2.3 million of

improvements if it used 20-year bonds to finance the work.

Harris Vice President Bob Swanger said ice arenas are prime targets for energy saving contracts because so much energy is used to make ice and to heat the arenas for spectators. He said the new geo-exchange system being installed at the Bielenberg Sports Center captures for later reuse waste heat that is stored in underground well tubes. The system uses 95 percent less natural gas than the current equipment.

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