

Authorization of New Capital Improvement Project – Appalachian State University

In 2002, the General Assembly authorized state agencies to utilize guaranteed energy savings contracts as a method to reduce the state's increasing utility costs, improve efficiencies of operations, and reduce environmental impacts. The President's Advisory Committee on Efficiency and Effectiveness (PACE) and the UNC Tomorrow Commission identified guaranteed energy savings projects as important tools to achieve facility efficiencies and proper environmental stewardship.

The Board of Trustees of Appalachian State University has requested authority to establish a capital improvements project and to enter into a guaranteed energy savings contract that would improve energy efficiencies, replace failing equipment and infrastructure, and reduce water consumption on the ASU campus. The project would provide more efficient lighting and mechanical systems, upgrade building controls for mechanical and electrical systems, and add water conservation devices in 16 campus buildings, involving about 24% of ASU's approximately 4,579,471 square feet of space.

Working with the State Energy Office and their list of pre-qualified energy service companies, ASU selected Pepco Energy Services (John Huffman, CEO) as its energy services company. Pepco has validated the estimated project cost and utilities savings and is willing to enter into a contract in which they guarantee that 100% of the projected savings will be achieved or Pepco will be liable for any shortfall. The estimated cost of the project, including financing costs, is \$8,959,000 and would be financed with a tax-exempt loan to be repaid within twelve years from utility savings guaranteed to total at least \$9,000,000. After the debt is paid, the savings produced by the improvements, estimated to be \$615,000 per year, will continue to accrue to ASU and the State. The project is expected to reduce the current energy consumption of the 16 buildings by at least 26%.

To finance this project, ASU solicited proposals from qualified lenders. ASU has selected SunTrust Equipment Finance and Leasing Corporation (Daniel E. McKew, President and CEO), a subsidiary of SunTrust Banks, Inc. (James M. Wells III, Chairman and CEO), who proposed a 5.1% fixed interest rate. The term of the loan is 12 years with a one-year construction period.

The project, the guaranteed energy savings contract, and the method of financing would be accomplished within the guidelines, procedures, and policies of the Department of Administration, the Office of State Budget and Management, and the Department of State Treasurer, and will be subject to the approval of the Council of State.

It is recommended that the request of the Board of Trustees of Appalachian State University be approved.