

EXECUTIVE SUMMARY

FOR THE SHOREWOOD SCHOOL BOARD

Topic: Honeywell Boiler Projects

Prepared by: Mark Boehlke

Date: December 11, 2012

Recommended action:	<input type="checkbox"/>	Information only
	<input type="checkbox"/>	Presentation/discussion
	<input type="checkbox"/>	Discussion/action by committee
	<input checked="" type="checkbox"/>	Discussion/action by board of education
	<input type="checkbox"/>	Presentation/action next meeting

Purpose:

The purpose of this report is to discuss and take action on whether or not to move forward with the Atwater and SHS boiler replacements as part of the Honeywell performance contract.

Recommendation:

The recommendation is for the Board to approve the Atwater replacement of two steam boilers with new steam boilers, and the replacement of three steam boilers in the SHS Powerhouse with a step up hot water boiler system with additional heating and ventilation system improvements in the north gym and arena.

Background:

1. In the spring of 2011, Superintendent Dr. McCann began to meet with Director of Business Services Mark Boehlke and Working Foreman Al Thien to discuss the possibility of entering into an energy performance contract. During those meetings, Thien concluded that there were a number of energy savings projects within the District that should be pursued. It was also concluded that the current maintenance staffing and budget would not allow for these projects to get completed in-house. It was decided that a performance contract should be pursued further and that a request for proposal be sent out to vendors to provide the District with a guaranteed energy savings program.

2. Two vendors submitted responses to the request for proposal. Honeywell/ESG and Johnson Controls presented their proposals to the Land Use and Physical Plant committee. The consensus of the committee was that although both vendors were highly qualified to perform the work required in the proposal, the Honeywell/ESG would be recommended to the Board based on the satisfaction of the work that was previously done in the District by Honeywell.
3. At the December 13, 2011 Board Meeting it was recommended that the Board approve entering into a Project Development Agreement with Honeywell/ESG. This recommendation was based on the current budgetary restraints of the District, the need for infrastructure upgrades, the Districts commitment to being good environmental stewards, and the opinion of the Land Use and Physical Plant committee. The Board unanimously approved entering into the agreement with Honeywell/ESG. The agreement allowed Honeywell/ESG to proceed with a detailed analysis of the District so that projects could be identified. The \$84,446 cost of the detailed analysis would be waived if no self-funding projects were identified or if the District chose to enter into a performance contract for at least one of any self-funding projects identified.
4. During the course of the detailed analysis that was being conducted, Honeywell/ESG provided the District with a Mid Audit Report on May 8, 2012 and a preliminary Facility Analysis Report on June 28, 2012. These reports began to highlight some of the findings and recommendations of the detailed analysis.
5. At the June 26, 2012 Board meeting, Ron Garrison from Honeywell/ESG presented the Comprehensive Facility Plan to the Board. This report included twenty three facility improvement measures at a cost of \$2,737,245 that are self-funding through the guaranteed energy savings. In addition, twenty-two facility improvement measures were identified at an additional cost of \$6,129,102 that are not self-funding through energy savings. The cost of all projects identified totaled \$8,866,347.
6. Following the June 26, 2012 Board meeting, Superintendent Martin Lexmond, Working Foreman Tony Seidita and Boehlke, met with representatives from Honeywell/ESG to tour the facilities and better understand the facility improvement measures that were included in the Comprehensive Facility Plan. Lexmond, Seidita and Boehlke met to discuss which of the improvement measures it would recommend for consideration to the Board.
7. At the July 10, 2012 Board Meeting, Lexmond, Seidita and Boehlke recommended that thirteen facility improvement measures at a cost of \$2,375,789 that are self-funding through the guaranteed savings and nine additional facility improvement measures at a cost of \$4,025,818 that are not self-funding through energy savings, be reviewed by the

Land Use and Physical Plant committee. They used energy savings and the opportunity to mitigate the risk of educational interruptions as priorities in the recommendation. The cost of all projects to be reviewed totaled \$6,401,607.

8. On July 11, 2012, the Land Use and Physical Plant committee met to review the facility improvement plans that were recommended by District Administration. Honeywell/ESG attended the meeting to answer questions regarding the projects. Upon review of the projects, the committee endorsed the thirteen self-funding projects that were recommended by District Administration. The committee also recommended six of the additional projects that are not self-funding at a cost of \$3,610,844. The cost of all projects recommended by the committee totaled \$5,986,633.
9. On August 2, 2012, the Adhoc Finance committee met to review the projects recommended by the Land Use and Physical Plant committee and to begin a discussion on the different options available to the District for financing the projects. The District's financial advisor from PMA, Michele Wiberg presented several financing scenarios to the committee. These scenarios include the use of a revenue limit energy exemption. Using this exemption would impact the tax levy. The committee decided that any consideration to increasing to the District tax levy should not be made in isolation from forthcoming Village levy increases. The committee asked the Village to share the projected Village levy with the District, so that PMA could present a financing option that would include both Village and District levy information. PMA prepared details of a financing option that was reviewed at the August 9, 2012 Adhoc Finance Committee meeting. In addition Honeywell/ESG attended the meeting to answer questions regarding the performance contract. The committee concluded the meeting by making the following recommendation:

On August 9th, the Adhoc Finance Committee approved the following financing plan in the event the School Board moves ahead with the Honeywell ESG Energy Performance Project.

1. *Utilizing the financing approach as outlined in the attachment. The plan has lower, interest only payments that are covered by the project's energy savings, thus providing for no net mill rate impact through 2019, at which time the debt structure of the District is significantly lower through the retirement of the general obligation promissory notes associated with the 2008 Maintenance, Facility and Grounds Renovations referendum. This approach also takes into account the village wide debt schedule for future capital projects.*
2. *The Finance Committee recommends that the School Board apply all guaranteed energy savings associated with the Honeywell project towards debt service. This will require an annual transfer from Fund 10 to Fund 39.*

- 3 *Given the estimated increase in state aid, there will be a corresponding decrease in the resident tax levy of an estimated \$1,128,518.00. The Finance Committee recommends the Board pass a resolution to override the revenue limit and utilize a minimum of \$500,000 of the levy reduction to be used for energy savings projects. This will reduce the amount of the borrowing needed for the performance contract.*
10. At the August 14, 2012 Board Meeting, the projects recommended by the Land Use and Physical Plant committee were presented, along with the financing plan recommended by the Adhoc Finance committee. It was reported that a copy of the Energy Services Agreement would be sent to the Board and legal counsel for review prior to the August 28, 2012 Board meeting and that Administration is pursuing a third party engineer to review the boiler projects and provide an opinion prior to the August 28, 2012 Board meeting.
- 11 After review from District legal counsel, it was determined that notice requirements were not met in order to approve the Honeywell contract at the August 28, 2012 Board meeting. It was also determined that the contract agreement did not have to take place before the borrowing resolution. In order to meet these requirements, the resolution to approve the Honeywell contract was moved to the September 11, 2012 Board meeting.
- 12 On August 23, 2012, a third party consultant toured the District facilities and reviewed the boiler projects that are included in the Honeywell agreement. The consultant requested more detailed information on the proposed boiler projects. Honeywell provided the information that was requested and that information was shared with the third party consultant.
- 13 In order to comply with the public hearing and waiting period that is needed before the Board certifies the levy on the October 23rd Board meeting, the borrowing resolution was voted on and approved at the August 28th Board meeting. On September 6, 2012, the District posted notification for a public hearing to be held on September 11, 2012 at 6:00 p.m. at the Shorewood High School library. A thirty day petition period begins after the public hearing.
- 14 The Land Use and Physical Plant committee met on September 5, 2012 to review the comments of the third party consultant. The committee decided that the steam boiler replacement for Atwater Elementary should be placed on hold. It was felt that the desired solution for Atwater was to convert the steam system to a hot water system. Because the hot water conversion would cost more than the original plan to replace the steam boiler, the project should be delayed until a future referendum, unless the other Honeywell projects came in with a savings that would cover the cost of the conversion.

- 15 A public hearing was held on September 11, 2012. Steve Nelson, an attorney from Von Briesen & Roper who reviewed and negotiated changes to the agreement with Honeywell on behalf of the District, answered question regarding the contract.
- 16 Following the public hearing, a regular Board meeting took place at which time the Board unanimously approved the agreement with Honeywell.
- 17 At the Districts annual meeting on September 24, 2012, a resident expressed a number of concerns with the Honeywell agreement. The resident was asked to meet with Board members and District Administration to discuss the concerns.
- 18 On September 25, 2012 two Board members, Superintendent Martin Lexmond, Director of Business Services Mark Boehlke, and Working Foreman Toney Seidita met with the resident to discuss the concerns.
- 19 The concerns raised by the resident were vetted through the Districts legal counsel and the DPI. Legal counsel did not find anything in the agreement that did not follow the requirements of a performance contract under Statute 66.0133. In discussing the matter with the DPI, the Administration and legal counsel concluded that the District is able to use the revenue limit exemption for energy conversation purposes that is outline in Administrative Rule PI 15.
- 20 At the October 2, 2012 Board Meeting, the Administration reported back to the Board on the discussions that took place with legal counsel and the DPI surrounding the concerns brought forth by the Shorewood resident. The resident was in attendance and discussed her concerns with the Board on borrowing without referendum and with including projects in the agreement that had a payback period that was greater than the 15 year payback of the borrow. The Board decided to meet as the Finance Committee and discuss these concerns.
- 21 The Board Finance committee met on October 9, 2012. Different options surrounding the scope and financing of the projects were discussed. Board member David Cobb agreed to summarize these discussions and to bring them forward to the Board for discussion and action at the October 16, 2012 Board meeting.
- 22 On October 11, 2012, the thirty day petition period ended. No petition was filed prior to the deadline.
- 23 At the October 16, 2012 Board meeting the Board took action to approve going forward with the Honeywell Projects that had a payback period of 15 years, totaling \$2,591,750.

It was also decided that further discussion and feedback was needed from the community to determine whether the District should move forward with the boiler projects.

- 24 At the October 23, 2012 Board meeting, the Board passed a resolution to override the revenue limit by \$500,000 to pay for energy efficiency projects to be completed during the 2012-13 fiscal year.
- 25 The District hired Fredericksen Engineering to do a site visit and report on the conditions of the boilers, give an opinion of the not to exceed pricing from Honeywell and to make recommendations pertaining to the boilers. It was their recommendation to replace the boilers at both locations and convert from steam to hot water at both locations. In their opinion the pricing from Honeywell was accurate with the exception of the hot water conversion at Atwater. Fredericksen felt the project could be done for less than the Honeywell not to exceed number. A discussion was had with Honeywell on the cost estimate, and Honeywell worked to re-cost the pipe runs required for the conversion. The new cost estimates lowered the not to exceed number from \$1,758,000 to \$1,181,700. This still represents an \$847,981 additional cost from replacing the current Atwater steam boilers with new steam boilers. This extra cost would not be made up with the extra efficiencies of a hot water conversion, and the hot water conversion cost exceeds what is in the project budget.
- 26 On December 3, 2012, the District gave an informational presentation and answered questions pertaining to the boiler project. A community meeting was also held at the SHS library that evening. In an effort to further inform the community about the heating system needs and the funding opportunity, the superintendent included information about the energy efficiency and boiler projects in his presentation to the Shorewood Men's Club on December 5, 2012.

Following is a timeline going forward:

- 27 The District will work with PMA on the bond sale to finance the Honeywell projects. The amount of the financing will depend upon the decision of whether to include the boiler projects. The Board would approve the bonds at a Board meeting in January 2013. Once the bond proceeds are in hand, Honeywell will begin the work needed to complete the approved projects.