

**COUNCIL ACTION FORM**

**SUBJECT: APPLICATION FOR STATE ENERGY PROGRAM GRANT FUNDS**

**BACKGROUND:**

Staff recently learned that the Iowa Economic Development Authority (IEDA) Energy Division has a significant amount of potential grant funding remaining in the State Energy Program (SEP). This program is designed to fund projects that improve energy efficiency, reduce energy costs, and promote economic growth. SEP funds are tied to the American Recovery and Reinvestment Act (ARRA), and must be used by August 31, 2012.

The requirements of the SEP program are similar to the requirements for the Energy Efficiency and Conservation Block Grant Program, which the City previously used to successfully complete traffic signal, parking lot, street, and building lighting retrofits. SEP would fund up to 50% of an approved project's costs. Projects would need to meet the Buy American provision of the ARRA that requires all equipment purchased to be assembled in the United States. Any contract labor used to complete projects would need to meet Davis-Bacon prevailing wage requirements, which in some cases requires that the City pay higher costs. IEDA has indicated that if a project qualifies for rebates through a local utility, the City may keep those rebates.

After soliciting proposals from departments, staff proposes applying for SEP funds for the following three projects:

<b>Location</b>	<b>Project</b>	<b>Budgeted Cost</b>	<b>Funding Source</b>	<b>Payback Period</b>
Resource Recovery Plant	Convert 223 Fluorescent/Metal Halide Lights to LED	\$60,000	2011/12 RRP Operating Budget	3.33 years
Water Wells	Downsize Pumps/Install Variable Frequency Drives on up to 22 well pumps	\$165,000	2012/13 Water CIP	Varies. Longest payback is estimated to be less than 15 years
Electric Distribution Warehouse	Replace two heat pumps	\$16,000	2012/13 Electric Distribution Operating Budget	16.5 years

Resource Recovery staff has received an estimate from a vendor for converting lighting in the Plant from fluorescent and metal halide to LED. This preliminary figure indicates LED conversion would have a payback of 3.33 years considering energy and maintenance cost savings.

Water Department staff recently downsized pumps on two wells, resulting in reduced electricity costs and a payback of approximately one year. For the remaining 22 wells, energy reduction is not expected to be as drastic. However, a consulting engineer will determine, based on payback and cost calculations, whether each well pump should be downsized or have a variable frequency drive installed. Wells that require simpler retrofits would be considered for the grant money. Any wells that may not be able to be retrofitted by August would be completed with 100% City funds. Additionally, any wells where retrofitting delivers a payback longer than 15 years will likely not be completed with grant funding.

Electric Distribution has set aside \$16,000 in next year's budget to replace two out of the three heat pumps that serve the building. These units are eight years old, but have begun to perform poorly and are in need of replacement. Staff has only rough estimates for cost of equipment and installation for the project at this time, so the payback period may improve or lengthen depending on project costs.

Because of the short time frame in which these projects must be applied for, approved, and completed, staff is seeking Council approval before the project information is known in greater detail. Meetings with designers of these projects are scheduled to take place in mid-May. Should Council authorize the projects, the updated information calculated from these meetings will be used in the grant application.

**ALTERNATIVES:**

1. Direct staff to submit the three projects listed above for the State Energy Program, and authorize the use of funds from the Resource Recovery budget, Water CIP, and Electric Distribution budget as matching funds for each project.
2. Do not authorize staff to submit the application for the State Energy Program.

**MANAGER'S RECOMMENDED ACTION:**

These projects would all likely be pursued in the future, either as cost-savings measures or as necessary replacements for failing equipment. Pursuing these projects through this grant opportunity allows the City to reduce costs to Ames ratepayers and allows these projects to be completed earlier.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby directing staff to submit the three projects listed above for the State Energy Program, and authorizing funds from the Resource Recovery budget, Water CIP, and Electric Fund as matching funds for each project.