



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

May 26, 2005

H.R. 1533

Federal Energy Management Improvement Act of 2005

*As ordered reported by the House Committee on Government Reform
on April 13, 2005*

SUMMARY

H.R. 1533 would amend several standards for energy efficiency and conservation that apply to federal buildings, vehicle fleets, and equipment. The bill also would provide permanent authorization for federal agencies to use energy savings performance contracts (ESPCs), a type of procurement contract to obtain energy-efficiency improvements. The current authority for such contracts expires at the end of fiscal year 2006.

CBO estimates that the reauthorization of ESPCs would increase direct spending by \$256 million in 2007 and \$2.9 billion over the 2007-2015 period. Additionally, CBO estimates that, assuming appropriation of the necessary amounts, implementing H.R. 1533 would cost \$5 million in 2007 and \$62 million over the 2006-2010 period. Pursuant to section 407 of H. Con. Res. 95 (the Concurrent Resolution on the Budget, Fiscal Year 2006), CBO estimates that enacting H.R. 1533 would cause an increase in direct spending greater than \$5 billion in the 10-year period beginning in 2046. Enacting the bill would not affect revenues.

H.R. 1533 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1533 is shown in the following table. The costs of this legislation fall within all budget functions that contain operations and maintenance accounts.

By Fiscal Year, in Millions of Dollars

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
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CHANGES IN DIRECT SPENDING

Reauthorization of ESPCs										
Estimated Budget Authority	0	301	307	314	320	327	334	341	348	355
Estimated Outlays	0	256	306	313	319	326	333	340	347	354

CHANGES IN SPENDING SUBJECT TO APPROPRIATION

ESPC Contract Activity										
Estimated Authorization Level	0	6	13	20	27	35	43	51	60	68
Estimated Outlays	0	5	12	19	26	34	42	50	58	67

BASIS OF ESTIMATE

For this estimate, CBO assumes H.R. 1533 will be enacted by the end of fiscal year 2005. We assume that the necessary amounts will be appropriated for each year and that outlays will occur at historical rates for similar programs.

Direct Spending

H.R. 1533 would provide permanent authorization for the use of energy savings performance contracts. Under current law, the authority to enter into such contracts expires at the end of fiscal year 2006. Overall, CBO estimates that entering into ESPCs would increase direct spending by \$256 million in 2007 and \$2.9 billion over the 2005-2015 period, with additional significant spending in subsequent years (see the following section on long-term effects).

ESPCs enable federal agencies to enter into long-term contracts with an energy savings company (ESCO) for the acquisition of energy-efficient equipment, such as new windows, lighting, and heating, ventilation, and air-conditioning systems. Using such equipment can reduce the energy costs for a facility, and the savings from reduced utility payments can be used to pay the contractor for the equipment over time. Because the government does not pay for the equipment at the time it is acquired, the ESCO borrows money from a nonfederal lender to finance the acquisition and installation of the equipment. When it signs the ESPC, the government commits to paying for the full cost of the equipment as well as the interest costs on the ESCO's borrowing for the project. Since the ESCO faces higher borrowing costs than the U.S. Treasury, total interest payments for the equipment acquisition will be

higher than if the government financed the acquisition of the equipment directly with appropriated funds.

The obligation to make payments for the equipment and the financing costs is incurred when the government signs the ESPC. Under current law, agencies can use ESPCs to acquire new energy-efficient equipment, paying over a period of up to 25 years without an appropriation for the full amount of the purchase price. Thus, consistent with government accounting principles, CBO believes that the budget should reflect that commitment as new obligations at the time that an ESPC is signed and that the authority to enter into these contracts without budget authority for the full amount of the purchase price constitutes direct spending.

CBO's estimate of direct spending reflects an amount equal to the cost of the energy conservation measures as installed, plus the portion of borrowing costs attributable to contract interest rates that exceed U.S. Treasury interest rates. (Borrowing costs equivalent to the amount of Treasury interest that would be paid if the equipment were financed with appropriated funds are not counted against this authority, consistent with the budget scorekeeping of regular interest costs associated with federal spending. That is, Treasury interest effects are not counted as a direct cost or savings to any particular legislative provision.)

Since 1988, the Department of Energy estimates that agencies have entered into ESPCs valued over \$800 million, \$252 million of that in 2003 alone. CBO estimates that, because the federal building inventory is aging, those contracts would continue to be used over time at roughly the same rate as currently used—\$301 million in 2007 and increasing with anticipated inflation in each of the following years. Thus, we estimate that extending the authorization for ESPCs would increase direct spending by \$2.9 billion over the 2007-2015 period.

Spending Subject to Appropriation

As discussed above, ESPCs enable federal agencies to enter into long-term contracts with an energy savings company for the acquisition of energy-efficient equipment, such as new windows, lighting, and heating, ventilation, and air-conditioning systems. Currently, when using a standard ESPC, an agency agrees to make payments for services related to the operation and maintenance of newly installed equipment. Such agreements include measurement and verification activities to confirm that the equipment produces savings as guaranteed by the contract. Because the government can opt out of those services at any time, such contract costs are considered by CBO to be discretionary.

On average, we assume that such discretionary contract activities are about 2.5 percent of the value of the overall contract. Thus, in 2007, we estimate that such expenditures would total \$6 million for all contracts signed in 2007 and that payments would grow annually as new contracts are entered into each year and payment on older contracts continue. Overall, CBO estimates that such operations and maintenance expenditures would total \$313 million over the 2007-2015 period, assuming appropriation of the necessary amounts.

The use of ESPCs could result in future reductions in spending subject to appropriation. Under current law, contract terms can go up to 25 years. The average ESPC contract term is 17 years. Once an ESPC has expired, any cost savings due to increased energy efficiency is no longer designated to pay off the equipment financed by the ESCO. Thus, assuming equipment does not need replacing at the end of the contract term, appropriations could be reduced.

ESTIMATED LONG-TERM EFFECTS ON DIRECT SPENDING

Pursuant to section 407 of H. Con. Res. 95 (the Concurrent Resolution on the Budget, Fiscal Year 2006), CBO estimates that enacting H.R. 1533 would cause an increase in direct spending greater than \$5 billion in the 10-year period beginning in 2046 (and possibly for the 10 years before 2046 as well). That estimate assumes that the bill's estimated direct spending cost (for ESPCs) of \$354 million in 2015 would continue to increase over the next 40 years. Specifically, CBO assumes that the costs for energy conservation projects would increase at a rate of around 2 percent a year. It is uncertain whether the use of such ESPCs would continue to grow steadily, or at a faster or slower pace than that assumed rate.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1533 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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