



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

April 27, 2007

S. 992

Public Buildings Cost Reduction Act of 2007

*As ordered reported by the Senate Committee on Environment and Public Works
on March 29, 2007*

SUMMARY

S. 992 would authorize the Environmental Protection Agency (EPA) to provide \$120 million in grants over the 2007-2012 period to local governments for programs to reduce energy use in government buildings. In addition, the legislation would direct the General Services Administration (GSA), using existing appropriations, to increase the use of energy-efficient lighting throughout federal buildings. The legislation also would require various reports to the Congress regarding the grant program and energy efficiency in government facilities.

CBO estimates that implementing S. 992 would cost \$10 million in 2008 and \$85 million over the 2008-2012 period, assuming appropriation of the authorized amounts. Enacting S. 992 could affect direct spending by changing the use of existing funds, but CBO estimates it would likely have no significant effect on direct spending. However, if agencies entered into Energy Savings Performance Contracts (ESPCs) with a substantially greater value than anticipated under current law to increase the use of energy-efficient lighting in federal buildings, the bill could result in additional direct spending in the near term, and could lead to savings of future appropriated funds over the long term. Enacting the bill would not affect revenues.

S. 992 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would benefit local governments that participate in the demonstration program authorized in the bill. That program would provide \$100 million over five years for competitive grants to assist local governments in reducing energy use in public buildings.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 992 is shown in the following table. The cost of this legislation falls within budget function 300 (natural resources and the environment).

	By Fiscal Year, in Millions of Dollars				
	2008	2009	2010	2011	2012
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Authorization Level	20	20	20	20	20
Estimated Outlays	10	16	19	20	20

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted before the end of fiscal year 2007, that the amounts authorized by the bill will be appropriated for each year beginning in 2008, and that spending will follow historical patterns for current and similar programs.

Spending Subject to Appropriation

EPA Grant Program. Section 3 would authorize the appropriation of \$20 million annually, through 2012, for an EPA program of matching grants up to \$1 million annually for local governments to reduce energy consumption by their facilities. The program would terminate on September 30, 2012. Assuming appropriation of the authorized amounts, beginning in 2008, CBO estimates that implementing this provision would cost \$85 million over the 2008-2012 period.

GSA Lighting Technology Program. Section 2 would require GSA, using available appropriations, to retrofit or replace existing lighting technology in its buildings with more energy-efficient lighting technology within five years. This would build upon certain sections of Executive Order 13423—Strengthening Federal Environmental, Energy, and Transportation Management. That order set goals in many areas, including energy efficiency, renewable energy, and sustainable buildings. Based on information from GSA, CBO estimates that implementing this provision would increase the priority of replacing existing lighting technologies, but not significantly increase costs over the 2008-2012 period.

Other Provisions. The legislation would require GSA to establish a program to accelerate the use of cost-effective technologies and practices in federal buildings. The legislation also would require an annual and final report to the Congress on the matching grant program, as well as reports, plans, and recommendations within six months by GSA on energy efficiency and energy usage by federal buildings. Based on information from EPA and GSA and the cost of similar activities, CBO estimates that those provisions would cost less than \$500,000 annually over the 2008-2012 period, subject to the availability of appropriated funds.

Direct Spending

The bill's direction to GSA to increase energy-efficient lighting in federal buildings—using existing appropriations—could affect direct spending by changing the government's up-front commitments in Energy Savings Performance Contracts. CBO estimates, however, that S. 992 is unlikely to result in a significant change in the overall costs of such ESPCs.

The instructions for implementing Executive Order 13423—Strengthening Federal Environmental, Energy, and Transportation Management (which sets various environmental goals for federal energy usage)—recommends the use of ESPCs and other financial instruments (e.g., enhanced-use leasing) to reach the goals of the order. 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 an agency enters into an ESPC, the government commits to paying for the full cost of the equipment as well as the financing costs 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, without an up-front appropriation for the full amount of the purchase price. (Such contracts generally require payments over an extended period—up to 25 years.) 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.

Since 1988, the Department of Energy (DOE) estimates that agencies have entered into ESPCs valued over \$2.6 billion. Of that amount, GSA has agreed to ESPC contracts valued at \$500 million, primarily for large energy projects, including heating, ventilation, and air conditioning, boiler and chiller improvements, and lighting improvements. If GSA used existing appropriated funds for financing instruments like ESPCs for the replacement of more energy-efficient lighting technology, the bill could result in additional direct spending. However, based on information from GSA, DOE, and the Office of Management and Budget, CBO expects that under the bill, the specific ESPCs that GSA chooses to execute may increase the priority of replacing existing lighting technology, but that any such changes are not likely to significantly change the overall cost of ESPCs.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 992 contains no intergovernmental or private-sector mandates as defined in UMRA and would benefit local governments that participate in the demonstration program authorized in the bill. That program would provide \$100 million over five years for competitive grants to assist local governments in reducing energy use in public buildings.

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