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**To:** Lemoore City Council Item # 6  
**From:** Jeff Britz, City Manager  
**Date:** January 11, 2008  
**Subject:** Energy Efficiency Upgrades – Chevron Energy Solutions Contract

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**Discussion:**

At 7:30 pm, the Council will have the opportunity to consider awarding a contract to Chevron Energy Solutions to perform numerous energy efficiency upgrades and add two Solar PV systems on City Facilities. The contract is attached for your review. The City Attorney has worked with Chevron to ensure the contract terms and conditions met her approval.

This type of contract does not require competitive bidding. It is a design/build contract for energy efficiency projects. State law contains special provisions to allow this type of contract to be executed without competitive bids, so long as a Public Hearing is conducted, and necessary findings are made. A Public Hearing has been properly noticed for Tuesday evening.

While there are many advantages of the design/build concept, there is one inherent concern that we wish to disclose to you and the public. There is no way to absolutely ensure that the projects proposed in this contract will be constructed for the lowest possible price. As you are aware, typically the City hires an engineering firm to design a project, then competitively bids the actual construction. Often times, many contractors bid, and the bid is awarded to the lowest responsible bidder. In this case, Chevron Energy Solutions will both design each project, and cause them to be constructed, for a fixed price.

City staff has worked very diligently to ensure the scope of work and pricing terms are within reasonable expectations. That is not to say, however, that these projects could not be done less expensively if they were broken apart, and separately bid. What we do not know is if, or how much of, a savings could be generated, nor how much longer the projects might take. We have limited expertise in many of the project areas, such as Solar PV systems. We also do not know what affect market conditions would have on contractors. During historically busy times, costs for Public Works contracts have been known to rise quickly.

Chevron Energy Solutions has suggested that we cannot expect to simply remove significant components from the contract without it negatively affecting the pricing on the other components. In other words, they are really only interested if the contract remains largely intact.

The real benefit to this type of a contract is the lack of uncertainty in both cost and timing. We know today what the price tag is, and when we can expect the work to be done. If certainty of cost and predictability on the completion of the project are critical, these benefits may very well outweigh the risk of potential overpayment. This is quite clearly a policy decision for the Council to make.

**Budget Impact:**

The total project costs are proposed at \$3,893,935. The project, however, is eligible for an estimated \$406,559 in rebates and incentives. Once rebates are received, they will be credited against the expenses, leaving an overall budget impact of \$3,487,376. It is also estimated that as a result of the energy efficiency upgrades and Solar PV installation, there will be an annual energy cost savings of \$120,059. There is also an annual operational savings estimated at \$107,237, although the vast majority of that is at the Wastewater Treatment Plant, and those savings cannot be substantiated as clearly as the energy savings.

The use of debt financing is not recommended by staff for this project; rather we suggest using available funds from appropriate areas. The table below outlines our recommended funding strategy.

| Item                 | Cost (less rebate or incentive) | Funding Source     | June 30, 2008 Est. Fund Balance – Before Item | June 30, 2008 Est. Fund Balance – After Item |
|----------------------|---------------------------------|--------------------|---|--|
| MC Roof              | \$400,000                       | Facility/Infr Fund | \$450,414                                     | \$50,414                                     |
|                      | \$300,000                       | General Fund AR    | \$336,035                                     | \$36,035                                     |
|                      | \$938,265                       | General Fund       | \$7,103,594                                   | \$6,165,329                                  |
|                      | \$1,638,265                     |                    |   |  |
| MC Solar System      | \$624,380                       | General Fund       | \$6,165,329                                   | \$5,540,949                                  |
| MC Skylights         | \$132,626                       | General Fund       | \$5,540,949                                   | \$5,408,323                                  |
| PD Shade Structure   | \$121,488                       | General Fund       | \$5,408,323                                   | \$5,286,835                                  |
| PD Solar System      | \$283,887                       | General Fund       | \$5,286,835                                   | \$5,002,948                                  |
| SolarBee Circulators | \$168,995                       | Sewer Fund         | \$574,754                                     | \$405,759                                    |
| HVAC Upgrades        | \$99,798                        | General Fund       | \$5,002,948                                   | \$4,903,150                                  |
| Lighting Retrofit    | \$202,555                       | General Fund       | \$4,903,150                                   | \$4,700,595                                  |
| Irrigation System*   | \$78,000                        | General Fund AR    | \$36,035                                      | \$36,035                                     |
|                      | \$137,382                       | General Fund       | \$4,700,595                                   | \$4,563,213                                  |
|                      | \$215,382                       |                    |   |  |

\* The Weather Based Irrigation System project includes replacement of the irrigation system at City Park. This project is already included in the 2006-2008 CIP, and is budgeted at \$78,000, therefore that portion of the project does not impact the budget further.

Please remember that all of the items associated with this project are one-time expenses. Please also recall that the energy audit agreement that we signed in May of 2007 requires us to pay \$23,782 to Chevron Energy Solutions should we not move forward with the project altogether, to compensate them for the initial study performed and reported in October.

The overall reduction of the General Fund fund balance is expected to be \$2,540,381. Of this amount, \$938,265 is allocated for the re-roofing of the Lemoore Municipal Complex. The roof needs replacement regardless our interest in Solar PV. Considering this, the energy efficiency investment by the General Fund is \$1,602,116. Should these funds remain as fund balance, invested in interest bearing accounts, assuming a 4% rate of return, we would earn \$64,085

annually. The energy efficiency upgrades are expected to lower utility and operational costs to the General Fund to the tune of \$52,155 annually. In other words, the rate of return on the energy efficiency upgrades for the General Fund is just slightly lower than keeping the money in the bank, but we significantly lower our own carbon footprint.

**Recommendation:**

That the City Council should open the public hearing, accept testimony on the proposed project, and, should the Council find that the certainty of a known price and expectation of project completion add significant value, approve, by motion, Resolution 2008-02, which states the required finding under State law, and authorizes the Mayor to execute the contract with Chevron Energy Solutions for \$3,893,935.