Memorandum 12-009 Revolving Energy Fund

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MEMORANDUM 12-009

Date: December 27, 2011

To: Mayor and City Council

Through: Walt Wrede, City Manager

From: Regina Mauras, Finance Director

Subject: Revolving Energy Fund

The 'Revolving Energy Fund' was created through Ordinance 10-14 with the intent to provide loans for capital projects that improve energy efficiency in the City buildings and facilities. Loans from this fund are to be repaid based on the achieved savings from individual departments to the "Energy Fund'.

The opportunity arrived to utilize these funds when City Council accepted and appropriated a grant of $227,800 from the Alaska Energy Authority through Ordinance 11-02(S)(A). Ten projects were identified to be completed and paid for through a combination of grants, revolving loan and depreciation reserves. Funding used from the depreciation reserves and the revolving energy loan were to be paid back using the projected savings payback period.

What this means in the Finance Department is this, a loan needs to be set up for each of the projects that utilized the Revolving Energy Fund; a loan needs to be set up for each project that utilized depreciation reserves; this is a total of thirteen different loans ranging in period of time from 1.4 years to 13.4 years. The payment amounts range anywhere from $3 to $12,000 annually.

Each of these loans need to be accounted for by each of the department's budget annually. Additionally, an analysis will need to be completed annually on the energy usage to determine that the annual savings is an amount equal to the payback for the year. Also, if the budgeted utility charges, (i.e. electricity) increased during the year due to a rate increase, the savings that may have been received will be diminished. This will cause the departments to pay higher
utility costs, and still have to transfer funds to pay off "Revolving Energy Funds'.

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A final concern is the inter-mingling of Enterprise Funds and General Funds. Clear concise lines need to be drawn between the two different funds. Putting monies from both sources and then loaning it out to whatever source needs it, without segregation is an issue all on its own.

With the complexity of this process, one can imagine that our staff time in Finance will increase, as will the audit hours for our annual audit.

Recommendations:

1. Dissolve the Revolving Energy Fund. Use the remaining money to repay the P&H reserves. (Port & Harbor contributed $48,620 to the Fund, $29,294 was spent toward Harbor Lighting, leaving a balance of $19,326)

2. A separate energy efficiency account should be set up in each of the three depreciation accounts, (i.e. General Fund, Utility and Port & Harbor); similar to the separation we have for the fleet reserves. This would mimic HART or HAWSP in that there will be a dedicated source of revenues for energy efficient projects.

3. All future energy efficiency loans or project monies should come directly from one of the three depreciation accounts.

4. 10% of the contribution to depreciation accounts each year should be dedicated to the energy efficiency fund(s).

5. Loan repayment requirements to the Energy Fund and the Depreciation Funds for 2011 and 2012 should be “forgiven.” (By eliminating loan repayment requirements, it will allow for greater contributions from the annual transfers to energy efficiency reserves.)