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**Subject:** Southeast Michigan Regional Energy Office Participation Agreement

On behalf of the founding partners of the Southeast Michigan Regional Energy Office, thank you for considering participation in our collaborative.

By leveraging funding provided through the Energy Efficiency and Conservation Block Grant program funded through the American Recovery and Reinvestment Act, we believe we can create a long-term, sustainable infrastructure for supporting programs and projects regarding energy efficiency and renewable energy across metro Detroit.

This memo summarizes the intents and requirements of the Office, while the referenced documents provide detailed information on its operations.

I, my staff and our colleagues at WARM Training Center, SEMCOG and the Michigan Municipal League are all happy to answer any questions for you or to provide additional information upon your request.

Additional information, including the documents referenced at the end of this memo, is available electronically at [www.michigansuburbsalliance.org/regional\\_cooperation/energy\\_office](http://www.michigansuburbsalliance.org/regional_cooperation/energy_office).

**Action Requested:**

We hope that your community will consider becoming a founding member of the Office by signing the attached participation agreement.

**Background:**

In the spring of 2007, city mayors and managers from across metro Detroit gathered in Dearborn Heights to discuss how our communities could most effectively collaborate on energy policy and programs. One of the resulting recommendations of that discussion, captured in the attached publication *In the Ring*, was to establish regional energy offices provide expert consultation and education for government officials and initiate and coordinate energy-saving programs. Over the following two years, a collaboration among the Michigan Suburbs Alliance, WARM Training Center, SEMCOG and the Michigan Municipal League emerged, focused on laying the foundation for an energy office in southeast Michigan by supporting municipal building audits, providing educational programming and crafting a business plan to guide further work with a sustainable funding base. This initial activity was financed by grants from the Michigan Department of Labor and Economic Growth and the Michigan Public Service Commission as well as in-kind contributions from the four partner agencies.

A significant part of our work in the policy realm honed in on supporting the development and funding of the Energy Efficiency and Conservation Block Grant program at the federal level. Initially authorized by Congress in 2007 as part of the Energy Independence and Security Act, the program languished without funding until this year when it was incorporated into the American Recovery and Reinvestment Act. The stimulus funded the program at \$3.2 billion, the vast majority of which is dedicated to local governments and state energy offices.

Although not anticipated in our initial business plan, which was finished in the fall of 2008, the EECBG funding provides an exciting opportunity to capitalize this regional program without having to tap into shrinking municipal budgets. In the SEMCOG region, 36 communities (counties, cities and townships) qualify for direct funding from the federal government. The balance of the region's local governments will have to compete for funding available through the state energy office.

The Energy Office proposes to provide technical assistance to assist communities in the preparation and submission of grant applications and energy strategies. We are proposing that communities agree to refund the value of grants secured by the Southeast Michigan Regional Energy Office back to the Energy Office through their energy cost savings catalyzed by the project. This is a common mechanism known as a "performance contract" with one key distinction: the community keeps the vast majority of savings from a project and those they send on the Energy Office accrue to the benefit of the region. Those funds will help build an endowment that will allow us to facilitate regional collaboration as well as direct strategic, educational and technical services back to the community as detailed in the business plan.

**Discussion:****Participation Agreement**

The participation agreement predicates the formal launch of the office and outlines the duties and responsibilities of the participating communities and the support staff of the Office (currently on loan from the founding partners). With funding from the Michigan Department of Environment, Labor and Economic Growth, the partners can provide short-term technical assistance to support the launch of the Office.

## Community Obligations

### *EECBG “Entitlement” Communities*

Communities which have or will receive direct funding through the EECBG program become members of the Energy Office by dedicating ten percent (10%) of their funding to the Office.

If you are an “entitlement community” you will receive EECBG funding directly from DOE – Page 22 of the Business plan details allocations to southeast Michigan. To receive funding, your community must have submitted an application to the Department of Energy by August 8 and must thereafter develop a strategic plan for the use of those funds that must be approved by DOE. Most communities will receive up to \$250,000 upon approval of their application and the balance of their allotted funding upon approval of the energy strategy. The EECBG restricts the use of these funds in a handful of categories:

<b>Administration (Max)</b>	<b>Nonprofit Subgrants (Max)</b>	<b>Revolving Loan Fund (Max)</b>
10% or \$75,000 <i>Whichever is greater</i>	20% or \$250,000 <i>Whichever is greater</i>	20% or \$250,000 <i>Whichever is greater</i>

The allocation for the Energy Office may come out of the portion for nonprofit subgrants.

### *All Other Communities*

Via the participation agreement, communities commit to refunding the value of any grants secured for them through the Energy Office to the support of the office.

**Example:** Suppose with the support of the Energy Office your community develops and receives a competitive grant for \$200,000 to upgrade an HVAC system. The Energy Office staff will oversee the implementation of the project and manage the requirements of the grant in collaboration with your staff. After recouping the cost of the project, your community would realize the ongoing energy and maintenance savings for the life of the project. In this example, that’s a million dollars of savings.

<b>Project Cost</b>	<b>Annual Energy Savings</b>	<b>Annual Maintenance Savings</b>	<b>Simple Pay Back (Years)</b>	<b>Project Life Cycle (Years)</b>	<b>Lifetime Direct Benefit to the Community</b>
\$200,000	\$75,000	\$5,000	2.5	15	\$1,000,000

In exchange, you agree to pay the Energy Office the first \$200,000 of savings realized by the project. In this scenario that takes two and a half years. That funding goes to support the ongoing operations of the office, enabling us to continue to deliver services back to the participating communities.

Communities also agree to

- Delegate a representative and an alternate to the Office board of directors ;
- Participate in the crafting of the Office by-laws and adoption by the board of directors of the business plan;

- Release their historic energy data to the Office as well as any previous research or plans regarding energy use within the city; and
- Provide the necessary staff support to ensure the timely and complete submission of necessary documentation for grant applications.

#### Energy Office Obligations

The Energy Office agrees that it will ensure the timely and complete filing of grant applications for energy projects on behalf of the city and provide direct, personalized technical assistance to the city in identifying and designing competitive proposals. Thereafter, the Energy Office will ensure that the reporting, accountability and transparency requirements are met for the grant, meaning your staff will not be burdened. Moreover, the city will have full access to the services of the Energy Office as determined by the business plan.

#### **Business Plan**

The business plan is an unofficial document designed to give interested communities a sense of the potential scope of the Energy Office, including organizations, governance, operations, marketing and finance. The business plan must be adopted by the board of directors and may be adjusted by them depending on the interests of the participating communities and the availability of funds.

The plan details the mission, vision, purpose and goals of the office. It recommends a governance structure built off the guarantees in the intergovernmental agreement and further defines the role of communities that do not receive direct block grant funding from the federal government.

In addition to performance metrics and staffing, the operations plan provides details on the anticipated range of services the Office would provide. They are broken down into three categories:

#### Strategic Services

Hiring professional energy analysts and managing the data entry necessary for effective planning are two areas where regional cooperation makes great sense. By pooling resources communities can secure top-line talent and avoid both practical pitfalls and duplicate programming. The Office intends to coordinate strategic services on behalf of participant communities in five areas:

- Benchmarking and Auditing
- Sustainability Planning
- Evaluation and Reporting
- Advocacy and Policy Development
- Marketing

#### Educational Services

Customized staff training and community events, as well as regional forums and advanced technical seminars will be core services provided by the shared staff of the Office.

#### Technical Services

To maximize the capacity of participating cities to leverage their energy block grant funding, the Office will provide professional assistance in these four areas:

- Grant Research and Writing
- Technical Assistance (advice and support on project development and management)
- Joint Purchasing and Contracting
- Revolving Loan Fund Management

The business plan anticipates an annual budget for operations between \$1.3 and \$2.1 million with an additional \$1 million projected for a revolving loan fund. The budget assumes that approximately 25% of southeast Michigan’s “entitlement” communities will participate and that allocations from the EECBG program will decrease over time. An early role for the board of directors will be determining and adopting a sustainable funding model if the communities determine that long-term viability is an important regional goal.

### **An Opportunity for Regional Change Through Local Action**

Participation in the Energy Office is much more than a service contract; it is an investment in the sustainable future of the entire metro Detroit region.

Because the work of reducing energy uses or converting to renewable sources will happen predominantly at the local level, most of the attention of the Office will be on the development and implementation of programs and projects within city buildings and among city staff. However, working together our communities can access a wider range of professional assistance than we could separately, and we will be more competitive for additional funding from state and federal sources.

For example, the ARRA also appropriated \$400 million to the US Department of Energy to offer as competitive grants. We believe that – based on conversation with DOE officials – proposals that evidence regional cooperation will be received more favorably. The way the office is constructed allows us to apply for support from private foundations as well as accept gifts from individuals and corporations. Our ability to leverage your community’s participation is significant.

The stimulus funding and an increased awareness among the public of the importance of energy policy and programs present an extraordinary opportunity for our communities to transform the way we see metro Detroit. One city alone cannot change our “rust-belt” image, but together we can present a greener face to the world and catalyze an economic revolution built upon conservation and sustainability.

We believe the Southeast Michigan Regional Energy Office is the vehicle for realizing that vision.

And we hope your community will enthusiastically join us.

### **Attachments/Appendices:**

- Participation Agreement
- Draft Business Plan
- *In the Ring: Energy*
- DTE Customer Information Release Form