CAPITAL FINANCING

Partnerships and Energy Savings Performance Contracts Raise Budgeting and Monitoring Concerns

Why GAO Did This Study

ESPCs finance energy-saving capital improvements, such as lighting retrofits for federal facilities, without the government incurring the full cost up front. Partnerships tap the capital and expertise of the private sector to develop real property. This report describes (1) what specific attributes of ESPCs and partnerships contributed to budget scoring decisions, (2) the costs of financing through ESPCs compared to the costs of financing via timely, full, and up-front appropriations, and (3) how ESPCs and partnerships are monitored. Using case studies, GAO reviewed GSA and Navy ESPCs and DOE and VA partnerships.

What GAO Recommends

GAO recommends that OMB require and suggests Congress consider requiring agencies that use ESPCs to present an annual analysis comparing the total contract cycle costs of ESPCs entered into during the fiscal year with estimated up-front funding costs for the same ECMs. GAO also recommends (1) OMB work with scorekeepers to develop a scorekeeping rule to ensure that the budget reflects the government's full commitment for partnerships and (2) agencies perform business case analyses and ensure that the full range of funding alternatives, including useful segments, are analyzed when making capital financing decisions. Case study agencies had mixed comments on this report.

www.gao.gov/cgi-bin/getrpt?GAO-05-55.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Susan Irving at (202) 512-9142 or Irvings@gao.gov.

What GAO Found

Energy savings performance contracts (ESPC) and public/private partnership arrangements we examined were authorized by Congress and did not require reporting of the full, long-term costs up front in the budget. ESPCs are financed over time through annual cost savings from energy conservation measures (ECM) and only their initial-year costs must be recognized up front. OMB policy determined how agencies obligated ESPCs in their budgets. With partnerships, agencies sometimes used short-term leases to acquire assets constructed for the government's long-term use and benefit. As a result, budgetary decisions may favor alternatively financed assets. However, spreading costs over time enabled agencies to acquire capital that might not have been obtainable if full, up-front appropriations were required.

A number of factors may cause third-party financing to be more expensive than timely, full, and up-front appropriations. For example, a higher rate of interest is incurred by using ESPCs and partnerships than if the same capital is acquired through timely, full, and up-front appropriations. For our six ESPC case studies, the government's costs of acquiring assets increased 8 to 56 percent by using ESPCs rather than timely, full, and up-front appropriations. However, officials noted that there are opportunity costs, such as foregone energy and maintenance savings, associated with delayed appropriations, but there are insufficient data to measure this effect. For ESPC and partnership case studies, agency officials said they did not specifically consider or request full up-front appropriations because they did not believe funds would be available in a timely manner and because alternative mechanisms were authorized. An evaluation of funding alternatives on a present value basis could have helped agencies determine the most appropriate way of funding capital projects.

Implementation and monitoring of ESPCs is a relatively uniform process. Since partnerships take a variety of forms, their implementation and monitoring is more complex. Although third-party financing can make it easier for agencies to manage within a given amount of budget authority, it also increases the need for effective implementation and monitoring by agencies to ensure the government's interests are protected.