

## Statement of Need and Reasonableness

### Cost-Share Maxi-Audit Program for Public and Private Institutions

- I. This Statement of Need and Reasonableness describes the permanent rules proposed for the Cost-Share Maxi-Audit Grant Program for public and private institutions. The proposed rules are modeled on the rules of the State Cost-Share Maxi-Audit Grant Program, the Department, and other state agencies which operate similar programs and also on the procedures published at State Register January 30, 1984 (8S.R. 1614).
  
- II. Impact on Small Business  
The proposed rules create a program of financial assistance to Minnesota public and private institutions to conduct building energy audits and, as such, have no direct effect on small businesses. Rules covering programs such as this are exempted from Minn. State., sec. 14.115 by subd. 7(b) which exempts rules which do not directly affect small businesses.
  
- III. Need and Reasonableness of Each Rule Provision.  
Proposed part 7660.0010 states the purpose of the proposed rules. This part is needed to introduce the proposed rules and its reasonableness is self evident.

Proposed part 7660.0020 defines terms which have distinct meanings when used within the context of these rules.

Subpart 1 is needed as an introductory and explanatory sentence regarding the use of the definitions. Its reasonableness is self evident.

Subpart 2 defines an applicant as any statutory or home rule charter city, county, town or school or hospital as defined in the rule or joint power of these. This definition is needed to identify the institutions that are eligible under this program. It is reasonable to limit eligibility to those institutions eligible under the Institutional Energy Loan Program (IELP) which is being funded from these petroleum violation escrow funds.

Subpart 3 defines an authorized cost-share maxi-auditor as a person who has met the requirements of part 7660.0040 of the proposed rules. It is needed to give the reader a specific definition for a term used often within the rule. As such, its reasonableness is self-evident.

Subpart 4 defines building as any existing, separate, enclosed structure owned and operated by an institution. This definition is needed to identify those buildings which are eligible

for the grant program. It is necessary and reasonable to specify existing because an audit cannot be conducted on a building not yet constructed. It is necessary to specify separate to make clear that building wings or additions are not individually eligible for grants. It is reasonable to require that buildings be audited as a whole because the energy use in part of a building is inextricably intertwined with use in other parts. It is necessary to specify enclosed to eliminate buildings such as band shells and picnic shelters from grant consideration. It is reasonable to exclude such unenclosed buildings because their energy saving potential is small, and, given the limited funds available for audits, those funds should be directed toward buildings with greater savings potential. It is necessary to specify owned and operated by an applicant (as defined in 7660.0020, Subpart 2) to clearly state the types of organizations that are eligible for a grant, and the buildings for which they are eligible. It is reasonable to limit eligibility to applicants as defined to match the eligible institutions of the Institutional Energy Loan Program which is being funded from these petroleum violation escrow funds. It is reasonable to require that a building be owned and operated by an applicant because, ultimately, the purpose of the grant program is to induce applicants to make capital improvements in their facilities that may have a near term negative effect on cash flow, but which over the useful life of the improvement provide a significant net benefit. While

present ownership and operation does not guarantee that the applicant will remain the beneficiary over the useful life of an improvement, the applicant, as owner, does control the decision to change that status. Furthermore, if the building is sold, such capital improvements should be reflected in the sale price.

Subpart 5 defines Cost-Share Maxi-Audit. This definition is needed to establish a specific meaning for a term that is not in common usage. It is reasonable because it is consistent with other definitions of maxi-audit in statute (116J.06 Subdivision 12; 116J.37, Subdivision 1, paragraph b as amended by Laws of Minnesota 1987, Chapter 289, Section 1, paragraph b).

Subpart 6 defines Cost-Share Maxi-Audit manual or manual as the manual incorporated by reference in part 7680.0200 of the State's Cost-Share Maxi-Audit Program Rules. It is needed to provide a shorthand term for a reference used often in the rule, and is reasonable because it makes the rule easier to read.

Subpart 7 Cost-Share Maxi-Audit report is defined as a written document prepared according to the cost-share maxi-audit manual as the result of a cost-share maxi-audit of a building. It is needed to provide a shorthand term for a document referred to often in the rule, and is reasonable because it makes the rule easier to read.

Subpart 8 defines department to mean the Minnesota Department of Public Service. It is needed and reasonable to provide a shorthand term to make the rule more readable.

Subpart 9 defines "Hospital" as a public or private facility as licensed under Minnesota Statutes 1986, section 144.50, subdivision 2. It is necessary and reasonable to define so that only licensed hospitals can participate.

Subpart 10 defines School. It is needed to identify the types of schools eligible for program funds. It is reasonable to limit the schools eligible under this program to those that are eligible for the IELP.

Proposed part 7660.0030 establishes the criteria for eligibility for grants. The need and reasonableness of the provisions in the first sentence of this part are explained in the portion of this statement related to part 7660.0020 subpart 4. These provisions are repeated here for clarity's sake.

The second sentence of this part is necessary to exclude a building from grant consideration for five years after receiving a cost-share grant to allow limited grant funds to remain available for other buildings. It is reasonable because, were a limit not imposed, an



institution could repeatedly receive grants to do "new audits" that would essentially be minor updates of the previous audit. Institutions often do minor updates, at their own expense, to prepare applications for grant and loan programs operated by the department. If these qualified for a cost-share audit grant, it is likely that as much as one-third of the available funds would be used for that purpose, thereby severely limiting the funds available to other institutions. It is reasonable to set the limit at five years because after that period it can be assumed, based on the department's experience, that sufficient changes in technology and costs have occurred to make the existing audit obsolete, while within that period the audit should remain sufficiently current.

7660.0040 establishes criteria for cost-share maxi-auditor authorization. It is necessary to set standards for maxi-auditors to ensure that the auditor is technically qualified to perform an audit, familiar with the specific requirements of the audit, and qualified, under rule, to perform an audit eligible for submission in an ECM loan or grant application. It is necessary to provide for authorization of auditors to establish a means to resolve problems with audits not meeting the required standard, and to establish a means to remove a recalcitrant auditor from eligibility for future audit work.

It is necessary and reasonable to specify that an auditor be a professional electrical or mechanical engineer or architect to ensure that the auditor is knowledgeable in the areas necessary to perform an audit, and to comply with requirements of ECM grant and loan programs. It is necessary and reasonable to require that an auditor be registered in Minnesota to ensure that the auditor is familiar with Minnesota's Building Code and Energy Code, and to comply with requirements of ECM grant and loan programs. It is necessary to require that an auditor agree to abide by the requirements of this part in conducting maxi-audits to provide a clear indication on the part of the auditor that he/she is aware of and consents to these requirements. It is reasonable to do so because loss of authorization is a consequence of noncompliance with these requirements, and if the department is to impose such a penalty, it should assure itself that the auditor was aware of that penalty.

It is necessary to require that an auditor agree to attend mandatory training sessions to ensure that the department is able to disseminate information it believes to be essential to the successful completion of an audit. It is reasonable to require that an auditor attend such sessions because, in the department's experience, auditor training is best accomplished through the use of both written materials and in-person presentations. It is necessary

to require an auditor to sign and submit the authorization agreement to provide a written record of the auditor's awareness of and consent to the authorization requirements. It is reasonable to do so because, given the severity of the penalty for noncompliance, the department should provide itself with proof of an auditor's consent. It is necessary and reasonable to require that the agreement be signed after completion of training to ensure that the auditor's consent be informed. It is necessary to require an auditor to agree to make appropriate changes to an audit report to make clear that the auditor understands that it is his/her responsibility to rectify any shortcomings in an audit report. It is reasonable to do so because the auditor's role in the audit grant process is to properly perform an audit, and satisfactory completion of an audit occurs only upon submission of a report meeting the audit standard. It is necessary and reasonable to require that changes be made within thirty days of written notice to provide a specific time limit for fulfillment of the requirement. It is reasonable to set that limit at thirty days because it allows ample time to make any needed changes. It is necessary to require an auditor to adhere to the requirements of this part to maintain authorization to provide the department with a means of enforcement of these requirements. It is reasonable because the department requires an institution to contact with an auditor on the authorized list (7660.0080). While the department makes no guarantee as to an



authorized auditor's performance, it would be remiss in knowingly providing a list that includes auditors who have previously failed to comply with minimum requirements.

Part 7660.0050 describes the application process.

Subpart 1 states that an applicant must submit an application to the department on a form provided by the department. This subpart is needed to inform applicants of the proper receipt of an application, and to provide a consistent format for all applications. It is reasonable to require a standard application form to assist the applicant in identifying the information necessary for a complete application. The subpart then lists the required contents of an application. It is needed to clearly delineate the required contents. It is reasonable to do so because, for determining order of funding, an application will be considered to be received by the department only if it is complete (7660.0090). If the department is to decide that an application is incomplete, it must have a specific standard for doing so. The need and reasonableness of requiring the applicant's name and address and the name and address of the building for which application is being made are self-evident. It is necessary and reasonable to require the building square footage to determine the funding limit for that building. It is necessary and reasonable to require the building audit status to assist the department in determining whether the building is eligible under

part 7660.0020. It is necessary and reasonable to require the date of application to distinguish an application from any others submitted for that building on other dates. It is necessary and reasonable to require a contact person's name, title and telephone number to identify a representative of the applicant designated to receive the grant contract and to contact should the department require further information

Subpart 2 states that the department will process applications in accordance with part 7660.0090 subpart 1 until all funds are encumbered. It is necessary and reasonable to inform the applicant of the department's actions upon receipt of an application. The need for and reasonableness of part 7660.0090 subpart 1 will be discussed at that part.

Part 7660.0060 describes the contact process.

Subpart 1 states that the department will determine funding limits according to part 7660.0090 subpart 2 and prepare a grant contract for each building in an eligible application. The need to assign these tasks to one of the involved parties is self-evident. It is reasonable that the department determine the funding limits and prepare the grant contracts to ensure that the funding limit is properly calculated and that the state's interests, as grantor, are properly protected in the contracts. It is necessary and reasonable

to prepare a contract for each building because, in the department's experience, grantees often apply for funds for more buildings than are eventually audited. The department believes that it is simpler, for both parties, to void the contracts for those buildings not audited (or allow the contracts to expire) than to amend a single multi-building contract each time the grantee decides to eliminate a building from the scope of work to be performed.

Subpart 2 states that the department will send the prepared contract to the applicant for signature by two of the applicant's officials authorized to sign contracts. It is necessary and reasonable to require the signature of two officials to insure that an official does not act unilaterally in committing the applicant to the contract. Subpart 2 also states that a contract must be signed and returned within 45 days of mailing by the department, and that if this requirement is not met, the funds may be redistributed to other applicants. This provision is necessary to compel timely execution of contracts, and to allow the department to redirect funds if the applicant does not act in a timely manner. It is reasonable to do so because, barring such a provision, the department could not redirect those funds until the expiration date of the pending contract. If all available grant funds have been encumbered, and other applicants await funds, the department believes that it is appropriate to allow another applicant an opportunity to use those

funds. It is reasonable to limit the time allowed to 45 days because, as the governing bodies of institutions generally meet at least once within that timespan, it allows ample time to secure the governing body's approval, if needed. Subpart 2 also states that, after complete execution of the contract, the department will send the institution a copy of the fully executed contract, required scope of work, and a list of authorized cost-share maxi-auditors. It is necessary and reasonable to send the grantee a copy of the contract and required scope of work so that the grantee has a record of the requirements of the agreement. It is necessary and reasonable to send the grantee a list of authorized auditors to inform the grantee of the group of persons who are eligible to perform the audits.

Part 7660.0070 describes the Cost-Share Maxi-Audit report review. It states that the department will review audit reports to verify that the requirements of the audit manual have been met. It is necessary and reasonable because compliance with the requirements of the audit manual is a condition of grant fulfillment (7660.0080, D). The part further states that, if shortcomings are identified, the department will notify both the grantee and the auditor. The need and reasonableness of notifying the grantee is self evident. It is necessary and reasonable to notify the auditor because, under part 7660.0040 (D), the auditor is required to make the needed corrections. The part also states that the department may conduct

an on-site verification of audit data. It is necessary and reasonable to allow the department of resolve questions concerning audit data, if written and oral information do not provide adequate clarification. Finally, the part states that a notice of acceptance will be sent to the grantee upon determination that the audit requirements have been met. It is necessary and reasonable to inform the grantee of the department's determination.

Part 7660.0080 states the conditions to be met for payment of the grant funds. (A) It is necessary to require that work cannot be contracted for or begun before receipt of the fully executed grant contract to discourage applicants from entering into contractual obligations prior to securing a means of repayment. It is reasonable because, in requiring the applicant to wait until an executed contract is in hand, the impact of a potential misunderstanding of the department's intent to fund an application can be minimized. (B) The need for and reasonableness of the requirement that an audit be conducted by an authorized auditor are discussed at the section of this statement pertaining to part 7660.0040. (C) It is necessary and reasonable to require the grantee to submit the maxi-audit report so the department can determine that the audit requirements have been met. It is necessary and reasonable to require the grantee to submit the invoice for the audit work, itemized by building, to determine the



allowable grant amount for each building. It is necessary and reasonable to require that the audit and invoice be submitted 90 days prior to the expiration of the grant contract to allow sufficient time for department review, corrections and additions if needed, and processing of the payment request. (D) the need for and reasonableness of the requirement that the audit meet the requirements of the manual are discussed at the section of this statement pertaining to part 7660.0030.

Part 7660.0090 describes the priorities and funding limits under which grants will be awarded. Subpart 1 states that applications will be funded on a first come, first served basis, except when sufficient funds are not available to fund all eligible applications received on the same day. The subpart then establishes a funding priority for applications for buildings not previously audited and provides for proportional funding of applications when sufficient funds are not available to fully fund those applications. The subpart also provides for proportional funding of applications for previously audited buildings after fully funding applications for buildings not previously audited. This subpart is needed to establish a method to determine the priority of an application. It is reasonable because, when sufficient funds are available, all eligible applicants are given an equal opportunity to receive loan funds. It is reasonable to give unaudited buildings a higher priority when sufficient funds are not available because an

applicant with a previous, albeit outdated, audit has some useful information available in the existing audit, and has a document that can be used for grant and loan applications. Having made this priority determination, the department believes that any other fair assessment of priority would require the submission of a burdensome amount of financial information by the applicant. It is, therefore, more reasonable to give an equal percentage of the eligible grant amount to each applicant with the same priority.

Subpart 2 sets grant funding limits at the lesser of 80% of the audit cost or a funding schedule based on a cost per square foot plus a fixed cost per building regardless of size. The limits used are reasonable because they are based on comments received by auditors who have participated in the programs funded by this department and its predecessors. It is necessary to limit grants to a percentage of audit costs to provide a local investment in the audit. It is reasonable to do so because, with limited grant funds, the department wishes to leverage other funds to increase the impact of this program. Furthermore, experience has shown that, when no local contribution is required, applicants have given little consideration to cost effectiveness in choosing buildings to audit. Applicants required to make an investment in an audit tend to examine more carefully the potential benefit of the audit. It is reasonable to set the limit at 80% because it allows a significant

leveraging of other funds while providing sufficient inducement for program participation.

Subpart 3 restricts the use of these grant funds as a match for other grant funds available from the department. It is necessary to provide a local investment in the audit. The reasonableness of requiring local investment is discussed in the previous paragraph.