

How to Implement Solar using GESA/Performance Contracting Legislation

You may know that you can use Performance Contract legislation as a budget-neutral approach to energy-efficiency projects at your facility. But, did you know that same legislation can be used to implement solar projects and qualify for state grants?

BACKGROUND

Despite its inherent environmental and educational benefits, solar energy for Pennsylvania schools was – historically – just not financially attractive to own. However, two recent developments – Pennsylvania's Solar for Schools grant program and Inflation Reduction Act's Investment Tax Credit have dramatically altered the "other green" of owning solar – the economics.

Pennsylvania's Solar Grant Program

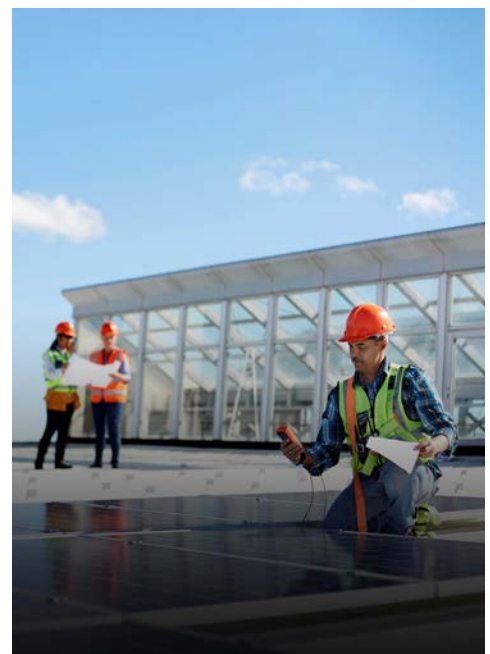
In July 2024, Pennsylvania's Solar for Schools grant program was signed into law. Through the program, the State will award funds to eligible public school districts, intermediate units, career and technical schools, and community colleges to purchase and install a solar energy project. Under the program, schools must implement solar through either the Separations Act or the Guaranteed Energy Savings Act.

Unlike the Separations Act which requires owners to use a multi-prime project delivery system and competitively bid plumbing, heating, ventilating, and electrical work, the Guaranteed Energy Savings Act (GESA) provides a limited exception to the separation requirements: public entities may award guaranteed energy savings contracts for the evaluation and recommendation of energy conservation and for implementation of one or more such measures through a simple request for proposal process.

Inflation Reduction Act

The Inflation Reduction Act breathes new life into schools' decisions around solar. Prior to the IRA, school districts had limited options for taking advantage of solar tax credits, generally requiring some type of third-party agreement. Now school districts can claim certain clean energy tax credits and receive funds directly from the IRS for their qualifying projects or investments.

Specific guidelines around the Pennsylvania application and selection process are still under development and are due to be finalized by October 2024.





PENNSYLVANIA'S SOLAR FOR SCHOOLS

Key Facts

- 1 Solar for Schools will be administered by the Pennsylvania Department of Community and Economic Development (DCED).
- 2 The Department of Community and Economic Development has until October 2024 to develop the guidelines for the application and selection process.
- 3 Once the agency opens the application process, schools can ask for grants to cover up to half the cost of installing solar panels.
- 4 Grants will be distributed equally across the state into three regions of equal population.
- 5 School districts within 50 miles of recent coal plant closures will be prioritized.
- 6 Districts that are eligible for the low-income tax credit bonus will be prioritized.
- 7 The state funds can be stacked on top of other donations, grants, or federal funds available through federal incentives through the Inflation Reduction Act.
- 8 Projects must meet prevailing wage requirements.
- 9 Projects must comply with either the Separations Act or the Guaranteed Energy Savings Act.
- 10 Awarded projects will be tracked publicly on the Department of Education website to include the total cost of projects, rebates, and incentives.

According to the U.S. Department of Energy, K-12 school districts spend nearly \$8 billion annually on energy costs, the second largest expense after teacher salaries.

Aging facilities combined with limited school budgets can result in deferred maintenance of facilities, with current estimates of around \$270 billion needed for infrastructure repairs.

WHAT KIND OF SAVINGS CAN SCHOOLS EXPECT?

Every solar project is different, but here are some project examples:

- » Batesville School District (Arkansas). Initially estimated savings of \$2 million over two decades but rising energy costs doubled that figure to \$4 million in savings.
- » Orange County Public Schools (Virginia). Installed panels at seven schools which provide 91% of electric use, saving \$130,000 per year and projected savings of \$9.5 million over 35 years.
- » Pittsburg Unified School District (California). Installed solar arrays at 14 campuses with 63% of district's total energy consumption now provided by these installations, including 90% of their electricity needs. Savings per year is \$1 million, with an expected lifetime savings of over \$11 million.



SOLAR AND THE INFLATION REDUCTION ACT

The Inflation Reduction Act (IRA) brings new life into schools' decisions around solar. Signed into law in 2022, the IRA aims to boost investments in domestic energy production and manufacturing, and to reduce carbon emissions by roughly 40% by 2030. It also creates a unique opportunity for K-12 school districts to leverage federal tax credits to help to fund investments in clean energy infrastructure and reduce cost.

Through elective pay, also known as “direct pay,” school districts can claim certain clean energy tax credits and receive funds directly from the IRS for their qualifying projects or investments.

Under proposed Treasury regulations, public school districts that are agencies or instrumentalities of state, local, tribal, or territorial governments can benefit from several tax credits. After a school district places eligible property in service, the school district can register its intent to claim a tax credit with the IRS and file a tax return. The IRS would then make a payment in the amount of the credit.

With the IRA, the IRS will now directly pay the school district the amount of tax credit earned by solar electricity projects. This is known as an “Investment Tax Credit” or ITC, the base amount of which will be 30%. Other factors can increase the direct payment amount, such as whether materials are sourced from the U.S., if the community is located in a fossil fuel-dependent locality, and if the school being upgraded is located in a low-income area.

Investment Tax Credits

The ITC is a one-time tax credit based on a percentage of the qualifying costs of a project. Under Section 48 of the Code, the ITC is available for the following specific types of renewable energy projects, each of which have their own definitions and requirements under the Code:

- » Solar
- » Fiber-optic solar
- » Fuel cells
- » Geothermal
- » Small wind energy
- » Waste energy recovery
- » Combined heat and power
- » Heat pump
- » Energy storage (e.g., batteries)
- » Biogas
- » Microgrid controllers

An ITC can be claimed after a clean energy project is completed and placed into service.

GETTING STARTED

Obtain a solar feasibility assessment

A solar feasibility assessment is multi-faceted and involves both utility bill review, as well as physical site reviews, including rooftops and adjacent fields, to develop a comprehensive understanding of the viability of solar in the district.

Gather Utility Data

Having three years of utility data will be helpful in determining savings and ROI of the potential project.

Identify Capital Needs

Work with key stakeholders and facility leaders to develop a strategic view of your facility capital needs, such as roof replacements, HVAC upgrades, and building automation systems.

WHY USE GESA LEGISLATION FOR SOLAR

Streamlined Project & Faster Delivery

Performance contracting provides a complete, turnkey solution, so that many capital needs can be accomplished under one umbrella project with a single source of execution responsibility. This delivers a faster approach to facility improvements and minimizes disruption to building occupants, activities, and schedules. And for public entities, there is no referendum required, further streamlining the process

Maximized Rebate & Grant Programs

Having a single prime contractor allows school districts to better leverage utility rebate programs, since performance contract projects typically involve ongoing measurement and verification of savings, as well as having energy engineers on staff for auditing. Additionally, the single point of contact streamlines communication for any documentation that must be compiled through the grant application process.

Greater Oversight, Cost, and Manufacturer Control

With this guaranteed delivery model, there are no change orders which delivers greater customer control. And for public entities, the performance contract method eliminates the low bid "...and or equal" aspects of the bid and spec procurement path. This enables greater flexibility in product selection and influence over project timeline

Guaranteed Performance

Unlike traditional bid/spec projects, performance contracts provide a guaranteed level of performance across every aspect of the project, including a defined energy/ operational savings, as well as having no change orders. This minimizes the customer's financial risk associated with the installation.



TYPICAL TIMEFRAME

