The FISCAL REPORT an informational update

Volume 29 For Publication Date: September 4, 2009 No. 18

Solar Projects—Don't Get Burned

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[Editor's note: From time to time, we publish guest articles that we think inform readers on topics of interest. Necessarily, the views and opinions of the authors are their own, but we think the article below is interesting and informative.]

Solar energy generation/photovoltaic projects are a hot topic right now (no pun intended). Solar projects can provide financial and nonfinancial benefits. The most obvious potential financial benefit is a savings in utility costs. Nonfinancial benefits include being environmentally friendly, the project being an education opportunity, etc.

In terms of the financial aspects, school districts should proceed cautiously when considering a solar project, whether district owned or a power purchase agreement (PPA), because they are very complicated, and the savings are often less than the cost to implement the project (i.e., solar projects can lose money!). Since solar projects often do not "pencil out," it is extremely important that school districts undertake the appropriate due diligence before committing to a project.

We believe that the keys to a successful solar project are:

1. Implementing the right process to become an informed consumer.

2. Understanding the public procurement requirements.

3. Understanding the financing and funding options.

The Right Process Leads to Informed Decision-Making

Because solar projects are very complex, it is natural that school districts may look to an outside party for a feasibility analysis (including project design, which is very important because design is a key driver of feasibility). In order to ensure the integrity of the savings projections, when using an outside party with technical expertise, it is important that they do not have a financial stake in the project actually being implemented. This is true whether a district is considering a project where it would own the solar system or a power purchase agreement, where a third party would own the system and sell energy to the district. "Guaranteed savings" cannot protect a district from faulty analysis, as there are often loopholes in such guarantees that make it very difficult for the "guarantee" to be enforced.

Because of the complexity of solar projects, in order for a school district to be a well-informed consumer, we advise the following process:

1. Have a feasibility analysis conducted by an independent third party solar expert with no financial stake in whether or not a project is undertaken. One such entity is the California Energy Commission (CEC), which is a state agency and which, through its Bright Schools program, can provide feasibility analysis services at no cost to a school district. There are also other entities that can provide an independent analysis.

2. After the independent feasibility analysis is completed, if a district wishes to continue exploring the possibility of a solar project, using the analysis as a guide, request bids or proposals (RFPs) for the provision of solar projects. The CEC can assist with reviewing a bid or RFP document.

3. Using the independent feasibility analysis as a guide, evaluate the bids/proposals to identify the contractors and/or vendors needed to implement the project. The CEC can assist with evaluating the bids/proposals received.

4. Decide whether or not to implement the project.

We find that many districts miss the first step, which is the most important. Specifically, some districts either do not engage in a public bid or RFP process, and instead begin working with a company that has solicited the business, or, even if they invite bids/proposals, the districts rely on the feasibility analysis subsequently produced by the company chosen. In both situations, an independent, impartial analysis is lacking.

Bidding Solar Projects

California law (Public Contract Code Section 20110 et. seq.) requires that school districts publicly bid for public projects, with certain limited exceptions. Since public bidding is the norm, if a school district wishes to consider, for business reasons (e.g. faster project implementation, avoid change orders, etc.), using a different method, then it is important to carefully implement a process in accordance with the rules of the exception.

One exception to the public bidding requirement is for energy projects pursuant to Government Code Section 4217.10 et. seq. Under this code section, school districts may utilize a proposal request process or may sole source the project; however, there must be a public hearing, after which the school board must make certain findings related to the project having financial benefits to the district.

Paying for Solar Projects

In terms of financing, obviously the lower the financing costs to the district, the more likely it is that a solar project can provide a net benefit. A relatively new feature that can be incorporated into a financing is called Qualified School Construction Bonds (QSCBs), which effectively provides financing at a zero (or very low) interest rate, because investors receive a tax credit in lieu of interest. The CEC also has financing programs, the interest rates on which are currently 1% or 3%, depending on the program.

Finally, even if the projected savings from a solar project are less than the project costs, it may still be worthwhile considering the project if the project can be funded with facilities funds that are restricted (e.g., redevelopment revenues, Mello-Roos taxes, general obligation bond proceeds, etc.), since the utility cost savings will be experienced in the general fund.

Conclusion

In summary, there can be financial and nonfinancial reasons for a school district to implement a solar project. Even if a project does not "pencil out" financially, it is a policy decision for a school board whether or not to pursue a project for the nonfinancial benefits; however, it is the responsibility of district staff to communicate accurate and unbiased financial information. The best way to achieve this goal is to have the feasibility analysis conducted by an entity both with the expertise and no financial stake in whether or not a project is undertaken.

posted 09/02/2009