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County's Hybrid Solar Financing Model Saves \$2 Million

By Jennifer Hill, Staff Writer, Novogradac & Company LLP

New Jersey's Morris County took on an ambitious renewable energy project last year. Solar panel installation is scheduled to begin on 14 schools and five county government facilities this summer, including a parking lot canopy at an ice rink. Morris County incurred no debt on the large-scale, 3.2-megawatt project. Nor did the county enter into a traditional private solar power purchase agreement (PPA) that might have saved it roughly a penny per kilowatt-hour (kwh) of electricity used. Instead, the county worked out an agreement that will save its participants approximately \$2 million over the next 15 years, or approximately 35 percent of its energy costs.

Seeking a Better Way

The county's elected board, called the Board of Chosen Freeholders, set out to find and implement a renewable energy program. After researching two conventional financing options for solar energy projects – the private PPA and government bonds – the board concluded that even for an affluent county like Morris County, the cost of owning and maintaining its own solar systems would be prohibitive. As for the private PPA, the board thought that although the county would see a slight decrease in electricity costs, the solar developer would reap most of the benefits, including federal solar investment tax credits (ITCs).

William Chegwiddden, deputy director of the board, soon realized that his triple-A bond rated county had access to something the private sector typically doesn't – low-cost financing. "We're always sitting in budget meetings looking for ways to save money," he said. "I thought, why don't we go solar and the county can share the debt service?"

Chegwiddden pitched the scheme to the other freeholders, who quickly saw its promise and presented it to the Morris County Improvement Authority (MCIA), a non-elected authority that issues municipal bonds to finance major infrastructure projects. Last June, MCIA gained approval from the local finance board to issue up to \$30 million in county-guaranteed bonds to launch a solar energy pilot program.

The freeholders and MCIA held outreach meetings throughout the towns and schools to share information and determine the level of interest in the program. MCIA hired an engineering team to inspect the proposed sites and, in particular, the roofs of the buildings to ensure they were in a condition good enough to bear the weight of the solar panels for at least 15 years. The county took other factors, such as southern exposure and shading, into consideration before selecting the final 19 structures to participate in the pilot program.



The Morris Model

Finding a private solar developer to work within the uncommon financial structure proved to be easier than anyone anticipated. The authority consulted with attorney Stephen Pearlman, of DeCotiis, FitzPatrick & Cole LLP, to draw up a request for proposal (RFP). The RFP asked for bids based on a 15-year PPA, including solar panel installation, operation and maintenance, with tax ownership to be conveyed to the private developer. Approximately 35 developers showed up to the first bidder's meeting. In the end, the county selected Tioga Energy, of San Mateo, Calif., and SunDurance Energy, of

continued on page 2

continued from page 1

South Plainfield, N.J., to work as a team. MCIA awarded the \$21.5 million contract last December and the transaction closed in February, just one year after the idea was introduced.

As the developer, long-term manager and asset owner, Tioga will oversee the planning and financial components of the deal, while SunDurance, an affiliate of a large-scale construction company called The Conti Group, will build and install the panels.

“We were one of the few developers that took the time to find out what they were doing with this structure,” said Kristian Hanelt, vice president of project finance at Tioga. Hanelt said that because the model had never before been attempted, Tioga provided the county with feedback about how to ease developer involvement.

Pearlman said the Morris Model incorporates the best of both PPAs and bond financing, and pointed out that the debt will be repaid in its entirety by the private sector instead of the county government or school districts. All the program participants need to do is continue to pay their electric bills. When the systems are operational, they will begin paying 10.6 cents per kwh of electricity used, down from 17 cents. Part of the bill will go to Tioga, and another portion to the regular local utility company.

Tioga, which will receive ITCs and solar renewable energy certificates (SRECs), is getting a good deal too, Pearlman said. “From Tioga’s standpoint, we’re the bank. They borrowed from us, so that’s \$21.5 million that they didn’t have to borrow from their own bank.”

Hanelt estimates that the average interest rate from traditional financing sources ranges from 8 percent to 12 percent or higher. The interest rate on the MCIA bonds is 4.5 percent.

Pearlman said although the solar panels are guaranteed to last for 20 to 25 years, state law limits the PPA to 15 years. He is drafting legislation to extend the length of agreements because, he said, with a longer contract term, the county would have been able to secure an even lower price per kwh.

Why it Works

Pearlman said a pooled transaction like the Morris Model produces economies of scale and can result in a lower price – to a point. “People ask why we didn’t do one major deal for all 40 communities in the county, and it’s because if the deal gets too big, the costs start to outweigh the benefits,” he said.

Chegwidden and Pearlman both agree that the schools make ideal structures for solar systems. The buildings tend to be expansive with long, flat roofs. And in the summers, when solar panels have the potential to produce even greater amounts of energy, schools are closed and the electricity will be sold into the power grid.

continued on page 3

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continued from page 2

When the schools resume operation in the fall, Chegwiddden said, the electricity generated during the summer months will appear as a credit on their electric bills.

"There's been a clamoring for it," Pearlman said, citing the towns' enthusiasm for a project that significantly reduces their operating expenses without requiring them to take on any debt. Christine Johnson, superintendent of schools in Boonton, N.J., said that the district is excited about the energy savings and also the possibilities for facility upgrades. Three schools in Boonton were selected to participate in the pilot program.

The enthusiasm has spread to other counties like Hudson and Sussex, who have expressed interest in implementing the Morris Model in their own counties.

Panel installation will get under way in June and is expected to be completed by next February. Chegwiddden said Morris County is already in the process of selecting sites for round two of the program. "As long as we have willing participants and it makes sense financially, we'll do it," he said, adding that the county is also looking into applying the Morris Model to other alternative energy sources, such as wind energy or hydropower.

Tioga's Hanelt pointed out one factor that was integral to the deal's success: the Section 1603 cash grant in lieu of ITCs that was part of the American Recovery and Reinvestment Act. If the Morris Model can survive beyond the grant period, he said, the structure could become an important one for distributing capital for renewable energy projects. ♦

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