



April 15, 2015
Statement for the
Senate Finance Committee
Working Group on Community Development and Infrastructure

The National Association of College and University Business Officers (NACUBO) appreciates the opportunity to provide comments to the Senate Finance Committee working group on community development and infrastructure. NACUBO represents more than 2,100 public and nonprofit colleges and universities. We work primarily with chief financial officers and their staff. Our association is dedicated to promoting sound fiscal and administrative practices at campuses across the country.

Small changes in federal energy incentives can make a big difference for the higher education sector.

In addition to the comments NACUBO submitted with 14 other organizations on tax-exempt bond financing to this working group, we also offer these comments on energy policy. NACUBO's members are extensively involved in financing capital projects and addressing operational issues from dining services to transportation, to smart growth and campus planning—with an eye on energy savings.

In recent years, a number of federal grant opportunities, loan guarantees, and tax credits have been structured in ways that exclude or limit participation by private nonprofit and public institutions of higher education. Examples include the Energy Efficiency and Conservation Block Grant Program, the Energy-Efficient Commercial Buildings Tax Deduction, the Renewable Electricity Production Tax Credit, and the U.S. Department of Treasury Renewable Energy Grants. As tax-exempt entities, colleges and universities must partner with commercial entities to realize any savings from these programs. Many walk away from such endeavors as such requirements often add significant legal costs and administrative burden to capital construction projects.

We encourage the working group to explore federal policy options to stimulate deep energy efficiency and renewable energy investments at colleges and universities.

Higher education institutions could leverage federal support with state and local government initiatives as well as with institutional funds and private sector investments. In some instances, slight tweaks to existing law could exponentially expand possibilities and mitigate or eliminate eligibility barriers. The right mix of incentives and investment could boost institutions over the hump of the current feasibility gap in order to invest in projects that over time would yield long-term dividends for taxpayers.

We offer two proposals for consideration:

Support extension of Section 179D. This technology neutral tax incentive encourages energy conservation by tying the value of a deduction to the actual energy savings generated at the building once it is completed. Energy efficient improvements that qualify include lighting systems, the heating, cooling, ventilation, and hot water systems, and the building envelope. In 2008, recognizing that

governments could not avail themselves of a tax deduction, but still wanting to encourage them to utilize the most efficient systems yielding long-term operating savings, Congress permitted governmental building owners to allocate the 179D deduction. Accordingly, Federal, state and local government building owners may make such allocations to one or more persons “primarily responsible for designing the property,” such as architects, engineers, contractors, environmental consultants, or energy services providers. Governmental entities that have benefited include state universities and medical facilities, among others.

Current law does not permit such allocations by nonprofit hospitals, colleges, universities, and other community organizations that embark on energy efficient construction projects, NACUBO urges Congress to allow nongovernmental nonprofits to receive the same benefit of Section 179D when their buildings meet a certain threshold of energy savings (new construction or renovation).

Extending Section 179D generally and expanding it to include small and large organizations, which can include hospitals, health clinics, colleges and other public service institutions, means increased savings on construction and operations. Contractors will likely offer lower bid prices when they will be assured that nonprofits can allocate the deduction to them. The deduction will help drive ingenuity and design enhancements and encourage innovation and lasting design improvements, all of which will lower nonprofit operating costs. This can help nonprofits around the nation reduce upward pressure on college tuition and the cost of health care, among other benefits.

Allow tax-exempt revenue bond financing to prepay power purchase agreements. The transition to renewable energy is most expensive during the first five to ten years until projects can pay off the initial capital cost. Because large-scale power purchase agreements (PPAs) for these projects cost more initially, one solution is to allow colleges and universities to pre-purchase a 20 year supply of power with low cost capital bonds and with flexibility to shape the debt (such as to have only interest payments during the early years of the term). The opportunity to use tax-exempt revenue bond finance for prepayment of PPAs is currently a financing tool available to municipal utilities but not a qualified use for nonprofit higher education sector.

Whereas many colleges and universities have tackled the low-hanging fruit of quick-payback energy efficiency and conservation efforts on their campuses, deep energy efficiency measures represent a tremendous untapped opportunity for the higher education sector to further reduce operational costs.

Demand, supply and distribution. New opportunities exist for colleges and universities to dramatically improve their energy and fiscal stewardship by further reducing energy consumption (e.g. smart labs, redesign of lighting systems, cluster computing and information technology demands), altering and expanding their energy sourcing (e.g. transition to renewable and reliable clean energy sources, development of new energy markets), and maximizing infrastructure improvements that address energy storage (e.g. smart metering, microgrids).

Yet, the terms of the scale of such investments are daunting. To engage in the type of large-scale and long-term projects that could achieve greater energy savings would require substantial upfront investment. Pushing an institution’s debt capacity to its limits in pursuit of a large-scale energy project

could result in a lowered credit rating that would make borrowing more expensive for every activity. This in turn would put an upward pressure on tuition and introduce the potential for significant long-term risk to the institution.

The pursuit of substantial energy savings and new energy sourcing also reflect growing consensus among campus leaders and business administrators that such shifts in operation are needed to maintain lower costs and to ensure the long-term energy reliability required to advance the educational mission of America's colleges and universities. According to the National Center of Education Statistics there are over 4,500 degree-granting institutions that expend more than \$14 billion in operations and maintenance—after salary costs, physical operations costs are often the second highest expenditure in most institutions. Estimates from APPA, the national association representing higher education facilities officers, notes there are at least 5 billion square feet in over 250,000 buildings which expend \$6-7 billion on energy and utilities. *American School and University* estimates that nationwide most campus buildings average over 45 years in age, reflecting a backlog of deferred maintenance and mechanical and electrical infrastructure that is critical need of updating or replacement, negatively impacting efforts to achieve greater energy efficiency.

As the Senate Finance Committee working group on community development and infrastructure considers national energy policy in the context of tax reform we urge its members to consider these and other federal policy options to further stimulate energy efficiency and renewable energy investments at colleges and universities and how federal support can leverage state and local government initiatives as well as institutional funds and private sector investments. In some instances, slight tweaks to existing law could exponentially expand possibilities and mitigate or eliminate barriers.