

Eco-Friendly Practices

Breaking Down Your Sustainable Design to Increase Return on Investment

By David Ely, President, CEO, Energy Design Service Systems



Mr. Ely

Recently, I was introduced by a hotel management and development company to a new construction project in Pittsburgh, Pennsylvania. They had just started construction on their 78,000 sq. ft. energy efficient hotel design, and were interested in ways to increase their return on investment. Immediately, my team set to work, researching incentives they might be missing that would do just that. After initially identifying six possible programs, we narrowed the list to three incentives for which this project would qualify.

Incentives Can Have a Significant Impact on your Return on Investment

Federal, State, and Local government agencies offer a number of incentives to businesses. Some incentives are put forward to guarantee that developmental benefits will be sustained. Other incentives support decreased energy usage in buildings to encourage investment in underdeveloped areas and to reward environmentally friendly building practices. These incentives not only reduce out-of-pocket project costs, but provide the additional benefit of enhancing the community in which the project is located. Several types of incentives are offered; from tax incentives (like the 179D Federal Tax Deduction) and state/local property tax exemptions, to state and utility rebates. By encouraging enhanced design such as effective illumination and comfort controls, the economic impact of the development is magnified. It's imperative that project managers don't overlook these incentives, as they can add up quickly. Let me show you how these incentives apply to a sample project like the hotel project in Pennsylvania-

What City/State Governments Won't Tell You

First and foremost, it's important to start looking at incentives as early as practical. A business new to an area/state has the most amount of negotiating power during the project planning phase. Before selecting which state or city you are locating in, it's good to contact the state and/or city to find what incentives are available. Oftentimes, a city/state may put together a custom package of incentives and/or financing options that aren't marketed publicly. While larger companies typically know of this practice, it's important for businesses of any size to engage their city/state early on. A developing hotel will not draw as many incentive options as a new manufacturing facility, but don't diminish your value. A hotel still has a lot to offer its community- capital investment, job creation, sustainable development, and often can encourage the potential for additional business growth (shops, restaurants, etc.) Location is important in any successful endeavor, and a supportive city/state can make a big difference in your decision.

Dissecting a Hotel Under Construction

When our team receives a project, they start by looking at the location and dissecting each aspect of the project's design, while reviewing the company's operations to ensure that all incentives are reviewed and captured. Taking a close look at the energy efficiency and/or renewable energy project features helps identify the various funding that may be available. More importantly, the team looks for minor improvements that could mean even bigger savings. For hotels, these improvements could be a slight change in lighting, specifying ENERGY STAR rated appliances, occupancy sensors in rooms, and/or energy management systems (EMS) in event spaces that are rented out on a schedule for both lights and HVAC.

Energy Certifications Can Boost Both Occupancy and Incentives

Energy or 'Green' Certifications can be a requirement from brand specifications, but can also offer added benefits that you may not consider. Increasingly, potential clients recognize the LEED® and ENERGY STAR names as an indication of quality. Local media will often draw attention to such buildings and the businesses that own/occupy them, in articles, generating free publicity. The U.S. Green Building Council (USGBC) rating system, LEED® Certification, is known to aid in both construction management and overall aesthetic appeal, while reducing operational and staff costs. However, this certification can come with a high price tag; taking advantage of available incentives can help alleviate these added costs. For some incentives, only buildings meeting the LEED® Gold Certification or above will qualify.

Less expensive ENERGY STAR Certifications are also becoming more common within the hospitality industry. Many states and utility companies, now offer incentives to businesses that install ENERGY STAR products. A government-backed program, ENERGY STAR

benchmarks a building against the national average and publicizes energy efficiency achievements with a seal of approval. According to ENERGY STAR, as a building's energy consumption goes down and the performance improves (better temperature control and illumination), annual energy costs also decrease, improving personal comfort for the clientele and increasing occupancy.

Let's see how these incentives would affect this hotel in Pennsylvania. Provided below, is the basic project information for this hotel.

Project Scope	
Project Type:	New Construction Limited Service Hotel
Square Footage:	78,000 sq. ft.
Energy Certification:	LEED® Gold Certified
Ownership	
Owned by a Hotel Management and Development Company that works on LEED certified projects.	

Incentives applied can make the difference. Let's look at how projects, like the new hotel in Pennsylvania, are broken down by incentives:

Energy Policy Act of 2005 (EPA) 179D Tax Deduction

If a project was constructed or renovated during the years of 2006 to 2013, the owner may be eligible to take the EPA 179D Tax Deduction. This deduction provides up to \$1.80/sq. ft. for energy efficient improvements made to a commercial building's lighting systems, HVAC, plumbing, and building envelope that exceed the ASHRAE 2001 standards 90.1.

Incentive Potential: Since this project was begun in 2013 and was incredibly energy efficient, they met the requirements to meet the \$1.80/sq. ft. standards, allowing this project to qualify for a tax deduction of \$140,400.

Utility Rebates

Rebate programs are offered by state agencies and/or utility companies to help cover initial equipment costs. These programs encourage the use of energy efficient equipment that will reduce a building's overall energy usage. Generally, there are two types of rebate programs- a prescriptive rebate provides a set amount for different types of equipment; a custom rebate provides a cash incentive based on the projected amount of energy savings.

Incentive Potential: This project was projected to achieve energy use of 50% below standards; because of this reduction from standards, the project was eligible to receive a rebate of \$18,900.

State Grant Program

The State of Pennsylvania generously offers several programs for different types of development projects. One of which is a grant program that provides funding to underwrite the costs associated with the design and construction of a high performance building. In addition to the eligibility requirements for a small business to apply, the building must meet LEED® Gold Standards, or standards established through the Green Globes program. This program offers 10% of total eligible building construction costs, up to \$2,500,000. Incentive Potential: This hotel was very interested in this program and as they were planning to be certified for LEED® Gold, they would qualify for the grant of 10% of their eligible costs.

State Tax Incentive for Job Creation

Within the State of Pennsylvania, a tax credit program is available to eligible small businesses that agree to create at least 25 jobs or increase their workforce by 20%. This program offers a tax credit of \$1,000/per job created. Tax credits may not be utilized by a business until the jobs are actually created. New full-time positions must earn an hourly wage rate of at least 150% of the federal minimum wage (150% x \$7.25= \$10.87) excluding benefits.

Incentive Potential: This hotel was indeed eligible, adding an estimated 31 jobs over the next 3 years; allowing for a potential state tax credit of \$31,000.

Renewable Energy Incentives

This project did not plan to incorporate the use of a renewable energy system. However, we will often present these incentives to the client to show that installing a renewable energy system with the help of incentives, can have a significantly shorter return on investment. In addition to federal incentives available, many states provide incentives for the installation of a renewable energy system. In some states, you can obtain cash incentives such as rebates or grants. Other states offer property tax abatements/exemptions, tax credits, and/or sales tax exemptions. If the hotel in Pennsylvania installed a renewable energy system it would have qualified for the following incentives:

- Federal Tax Credit

The Federal government offers a 30% tax credit for Solar, and a 10% tax credit for Geothermal and other eligible renewable energy systems.

- State Financing Program

The State of Pennsylvania offers a low-interest financing program to assist businesses cover the costs of a qualifying renewable energy system.

Whether it be a new construction project like the one in Pennsylvania, or a renovation project in another part of the country, it is important to look at what incentives could assist your sustainable building design. Depending on the scope of a development, a project could qualify for multiple incentives exponentially increasing the overall benefit, allowing you to do more. Trying to identify available incentive programs, determining if your project qualifies, and compiling the complete application package can be difficult. Fortunately, there are businesses that specialize in assisting other businesses through this process. Working with one of these companies can provide a number of benefits. First, they will do the research to find the incentives for which your project will qualify. Second, they have the experience to put together a strong application/proposal while explaining all reporting requirements to company leadership. Completing all of these items can be quite time consuming. Utilizing a professional takes these tasks from you, allowing you to focus on running your business.

After more than three decades in the lighting design and supply industry, David E. Ely founded Energy Design Services Systems (EDSS) in 2007. Originally headed to a creative arts college, with dreams for a career with Disney, David forged a new path in the lighting industry as he made the sacrifice to follow in his father's footsteps, who had fallen ill. Mr. Ely quickly found himself exceeding expectations, establishing lighting customers and unique designs for companies such as Taco Bell, Ford (World Headquarters), Detroit's Cobo Hall, AutoNation, Mercedes-Benz Autohaus green concept, and a part of the winning team in the International Store Design Competition for the Nalley Lexus Galleria. Mr. Ely can be contacted at 810-227-3377 or davidely@msn.com



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