

# Late Addition #1



December 11, 2020

## MEMORANDUM

To: Leelanau County Board of Commissioners  
Chairman, Bunek  
Commissioner(s): Ansorge, Soutas-Little, Rushton, Lautner, Wessell, Rentenbach  
Leelanau County Administrator, Chet Janik

From: E Three Inc.  
Kirstin Policastro  
Apollo Engineering, LLC  
John Richards, PE

RE: Request for 179 D Assignment / Allocation to E Three / Apollo for HVAC Project  
Renovation Heating Phase [Phase 1]

---

Dear Board Commissioners & Administrator Janik,

As you are aware earlier this year E Three Inc. and Apollo Engineering completed the design and installation of the Heating Phase of the HVAC Renovation Project at the Government Center. This energy efficiency project should provide the County with a notable savings in both usage and cost.

The United States Department of Energy provides incentives to both Commercial and Residential Property Owners for installing energy efficiency improvements. One such incentive is known as the *179 D Tax Deduction*.

We [E Three and Apollo] are interested in being able to take advantage of this deduction on future tax liability for work we provided for the County in 2020 [HVAC Phase 1]. As a matter of historical context, the County previously approved a similar request for 179 D for E Three and Apollo after completion of the renovation at the Law Enforcement Center Project in 2018.

### **179 D Background**

According to data released by the U.S. Department of Energy, buildings are responsible for 73% of all electricity consumption in the U.S., with about half of that coming from commercial buildings.

The Section 179D tax deduction was originally passed by Congress as part of the Energy Policy Act of 2005 in direct response to broader energy usage and independence concerns. It has since been renewed yearly up until and through the current year.

# Late Addition #1



Section 179D allows qualifying building owners and businesses to receive an up to \$1.80 per square foot tax deduction for their energy-efficient buildings placed into service during all open tax years (typically the “look back period” for buildings is three years, with some notable exceptions). Any accrued tax deductions from these buildings can be carried-back two tax years or can be carried-forward for up to 20 years.

## How to Qualify

For a building to be eligible, energy-based improvements must be made to the HVAC or interior lighting systems or to the building’s envelope. Additionally, the enhancements to these systems must surpass ASHRAE 2001 standards for buildings placed into service before 2016—and ASHRAE 2007 standards thereafter.

There are multiple methods to securing 179D and different levels of deductions depending on the energy efficiency levels met by the project. Energy consumption cost reductions of as little as 10%, in some cases, can result in very substantial tax savings.

## Who Qualifies?

179D is available to building owners and lessees that make eligible energy-efficient improvements to their commercial buildings, which can include:

- Retail buildings
- Office buildings
- Industrial buildings
- Apartment buildings (at least 4 stories)
- Warehouses

## Designers and Builders of Government Owned-Buildings Also Qualify

In addition, eligible designers, and builders (such as architects, engineers, contractors, environmental consultants, and energy service providers) can also qualify for 179D under a special rule for public property.

In this case, designers and builders that have enhanced the energy efficiency of a new government-owned building or made energy-saving renovations and retrofits to existing government-owned buildings are able to claim the deduction. As government entities do not traditionally pay tax, the owners of these buildings can allocate the accrued tax savings to the business responsible for the energy-saving enhancements.

# Late Addition #1



Government-owned buildings at the federal, state, or local levels can all potentially qualify for 179D, including:

- Schools
- State Universities
- Libraries
- Town Halls
- Airports
- Transportation facilities
- Post Offices
- Courthouses
- Military Bases
- Government Offices
- Institutions

## Qualification Process

Qualifying for 179D requires an independent, third-party to review the building to confirm the energy savings and potential tax deduction. In the past when we sought this tax deduction, we engaged a third-party valuation firm, Progressive Energy Services, from Traverse City, MI to conduct this review. Progressive Energy Services was successful during the 2018 application and is willing to engage with us again should E Three / Apollo obtain the County's Authorization for the Government Center HVAC Heating Phase.

Additionally, the qualification process requires companies who work on government-owned buildings to secure an allocation letter that allows the government entity to transfer/assign the benefit to the taxpayer.

Finally, if successful the County would need to provide utility data for the preceding 12 months for use by Progressive to perform the required energy analysis.

Attached please find the draft Allocation letter for your review and comment, signature. If there are any additional questions, please do not hesitate to let contact me directly [kpolicastro@e3inc.us](mailto:kpolicastro@e3inc.us) or by mobile phone 231-218-9260.

On behalf of E Three Inc .and Apollo Engineering we appreciate your consideration in this matter and thank you for the opportunity to work with the County of Leelanau.

Sincerely,

*Kimstin Policastro*

# Late Addition #1

## 179 D ALLOCATION LETTER

Please list the name, address, and telephone number of the authorized representative of the owner of the government owned building:

Chet Janik, County Administrator Leelanau County  
Government Center 8527 East Government Center  
Drive Suttons Bay, MI 49682  
Phone: 231-256-8100

Please list the name, address, and telephone number of the authorized representative of the designer receiving the allocation of the 179D deduction:

John Richards, PE  
Apollo Engineering, LLC  
9105 East Fouch Road  
Traverse City, MI 49684  
231-932-0800

Kirstin Policastro  
E Three, Inc.  
9105 East Fouch Road  
Traverse City, MI 49684  
855-338-4733

The address of the government owned building in which the property is installed is:

Leelanau County Government Center  
8527 East Government Center Drive  
Suttons Bay, MI 49682

The cost of the property's project is \$1,1,121,168.00

The date the property placed in service is: 2020

The amount of the 179D deduction allotted to the designers is: \$122,400.00.

Chet Janik, County Administrator, declares that to the best of my knowledge and belief, (i) the address of the government owned building in which the property is installed, (ii) the cost of the property, and (iii) the date the property was placed in service, are true, correct and complete.

Authorized representative of the owner of the government owned building:

By: \_\_\_\_\_

Date: \_\_\_\_\_

Chet Janik  
Its: County Administrator

# Late Addition #1

Under penalties of perjury, I declare that I have examined this allocation, including accompanying documents, and to the best of my knowledge and belief, the facts presented in support of this allocation are true, correct and complete.

Designers:

\_\_\_\_\_  
John Richards, PE

Date: \_\_\_\_\_

\_\_\_\_\_  
Kirstin Policastro

Date: \_\_\_\_\_