



# CASE STUDY: TEXAS SCHOOL DISTRICT GEOTHERMAL PROJECT

## Investment Tax Credit Elective Pay

Walker Blue, LLC partnered with a large independent school district in Texas to optimize federal incentives for a groundbreaking new high school campus. **The project incorporated an advanced geothermal heating, ventilation, and air conditioning (HVAC) system, which qualified for significant tax credits under the Inflation Reduction Act (IRA), resulting in over \$10 million in direct payments from the IRS.**

### CHALLENGES»

Public school districts, as tax-exempt entities, face unique hurdles in accessing clean energy incentives. The IRA allows for direct pay elections in lieu of tax credits, but qualifying requires meticulous documentation of eligible costs and compliance with bonus criteria. For this geothermal project, challenges included:

- **Identifying Qualifying Costs:** Only specific components of the geothermal system—such as drilling, piping, heat pumps, and related electrical and plumbing work—qualify for the ITC. Distinguishing these from non-qualifying general construction costs demanded a detailed cost breakdown.
- **Bonus Multipliers:** Achieving the full base credit (6%) with a 5x multiplier for prevailing wage and apprenticeship requirements, plus 10% bonuses for energy community location and domestic content, necessitated verification of labor practices, supply chain sourcing, and site eligibility.
- **Indirect Cost Allocation:** Project indirect costs, like insurance and contingencies, must be proportionally allocated to qualifying direct costs, adding complexity to calculations.
- **Regulatory Compliance:** Ensuring all documentation met IRS standards for direct pay applications, including Form 3468 and supporting studies.

**Without specialized guidance, districts risk underclaiming credits or facing audits, potentially leaving millions in incentives untapped.**



## SOLUTION»

Walker Blue, LLC was engaged early in the post-construction phase to conduct a comprehensive ITC study. Our approach included:

- 1. Cost Segregation Analysis:** We reviewed construction contracts, invoices, and plans to segregate costs by CSI divisions. Qualifying direct costs totaled approximately \$19.4 million, primarily in HVAC/plumbing (\$14.6 million) and electrical (\$4.8 million), representing 7.65% of the net project costs.
- 2. Indirect Allocation:** Using a proportional method, we allocated \$876,889 in project indirect costs to qualifying items, resulting in total eligible costs of \$20.2 million.
- 3. Bonus Verification:** Confirmed compliance with prevailing wage/apprenticeship (enabling the 5x multiplier to reach 30% effective base), energy community status (10% bonus), and domestic content requirements (10% bonus), for a combined effective rate of 50%.
- 4. Documentation and Application Support:** Prepared a detailed geothermal ITC study, including tables of qualifying costs, and assisted with the direct pay election. This ensured a seamless IRS review process.

Our methodology drew from project plans and calculations, with a focus on accuracy and substantiation to maximize the credit.

## RESULTS»

The district successfully received a direct payment of \$10,118,729 from the IRS, offsetting a significant portion of the geothermal system's costs. This represented a 50% effective credit on qualifying expenses, reducing the net project investment and freeing up funds for other educational priorities. The geothermal system is projected to deliver long-term operational savings through lower energy bills and maintenance, contributing to the district's sustainability goals.

## TAX CREDIT OUTCOME

Qualifying Direct Costs:  
\$19,360,568

Allocated Indirect Costs:  
\$876,889

Total Qualifying Costs:  
\$20,237,457

✓ **30% Base ITC (6% with 5x Bonus):**  
\$6,071,237

✓ **10% Energy Community Bonus:**  
\$2,023,746

✓ **10% Domestic Content Bonus:**  
\$2,023,746

✓ **TOTAL ITC ACHIEVED:**  
\$10,118,729

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