



# Inflation Reduction Act: Opportunities for the City to Leverage Elective Pay

Climate, Environment & Infrastructure Committee

December 5, 2023



# Federal funding opportunity



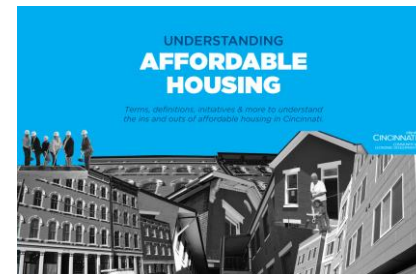
1. Infrastructure Investment & Jobs Act - \$1.2T
  2. Inflation Reduction Act- \$369B
- \*Justice 40 –**  
requirement that 40% of federal funding goes to communities most in need

# Overview

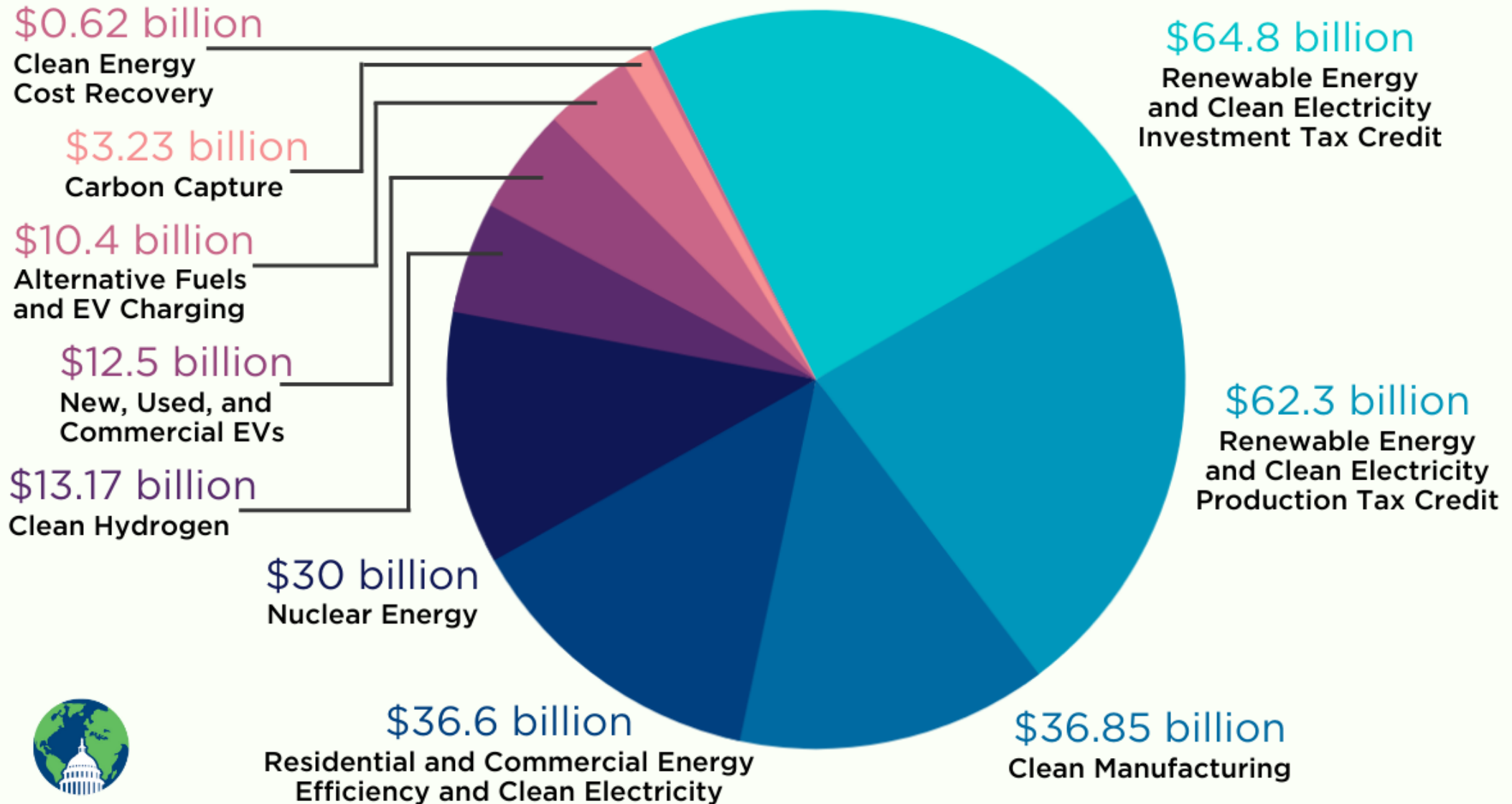
The Inflation Reduction Act is a big opportunity to push forward our economic development, financial empowerment, affordable housing, & Green Cincinnati goals

- **Support small businesses & workforce training**
- **Impact affordable housing & reduce energy costs**
- **Boost clean energy investments**
- **Accelerate vehicle electrification**
- **Save residents & businesses money**

IRA includes **tax credits and direct pay provisions** (available now) and **affordable housing rebates** (coming soon)



# Carrots Over Sticks: Green Tax Credits in the Inflation Reduction Act



# Direct Pay Provision

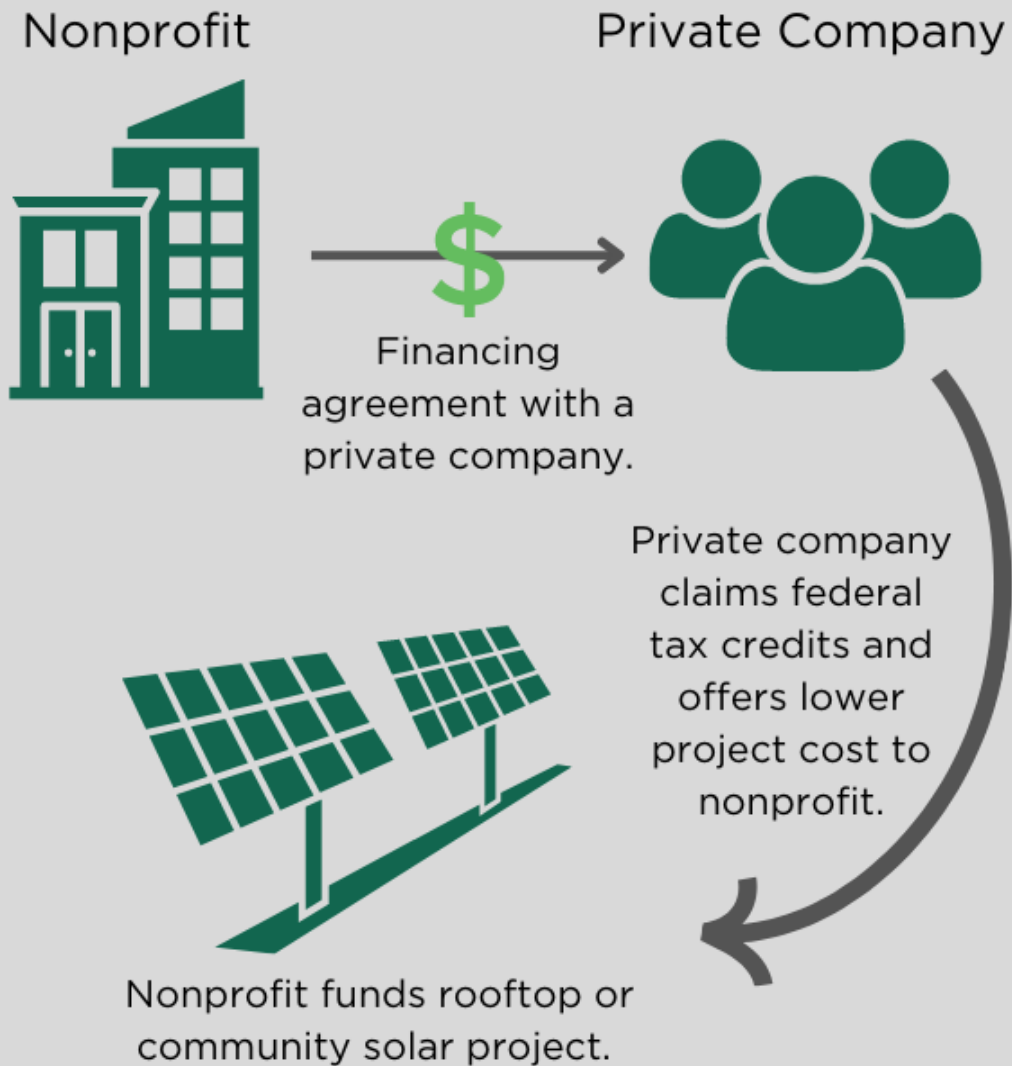
{Elective Pay}

Enables tax-exempt organizations to elect cash payments for energy improvements (such as solar & electric vehicles) instead of the tax credits that previously only benefited for-profit organizations with tax liability

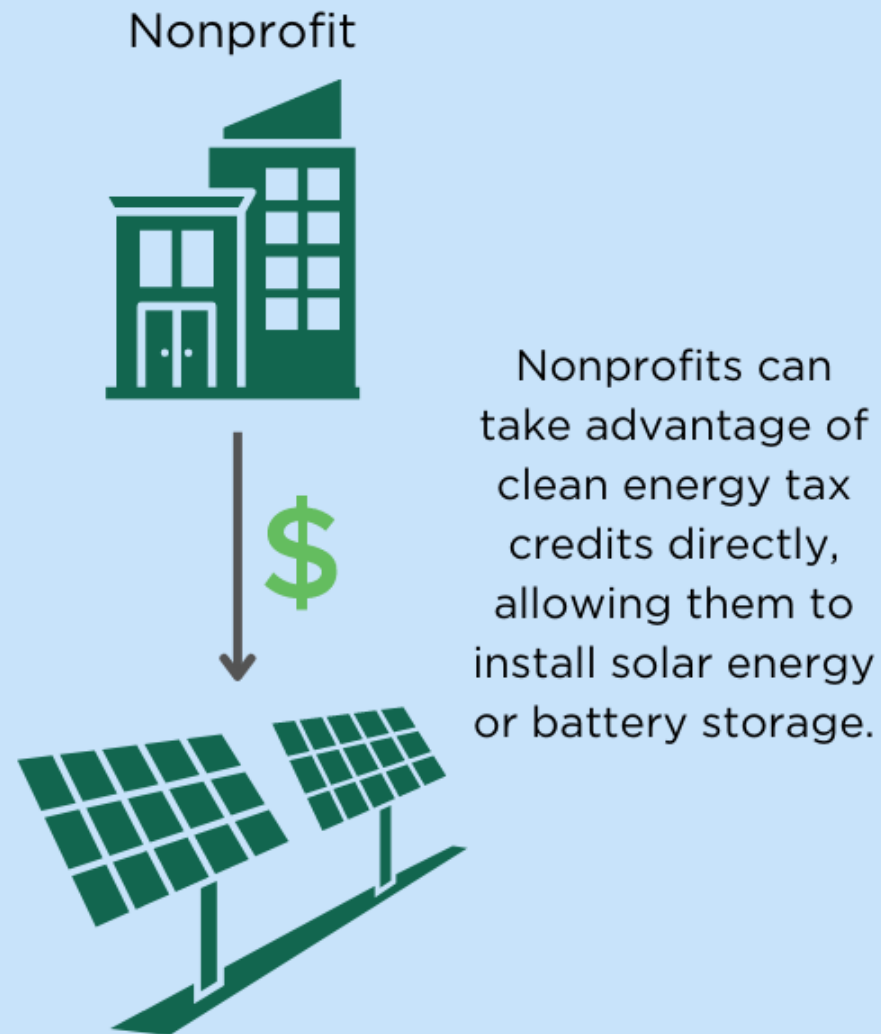
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# How Direct Pay Works

## Before Direct Pay



## After Direct Pay



# What's Changed With the IRA? Eligible Technologies

Investment Tax Credit: ITC-eligible technologies now include:



Solar PV



Battery Energy Storage



Thermal Energy Storage



Microgrid Controllers



Ground Source Heat Pumps



Electric Vehicles



Small-Scale Wind



Qualified Biogas



Combined Heat & Power



Fuel Cells



EV Charging



# Credit “Layer Cake”

Credit Category	Credit Amount
<b>Base Tax Credit</b> (projects must pay prevailing wage)	+30%
<b>Domestic Content Minimums</b> (% attributable to U.S. Manufactured Products)	+10%
<b>Siting in Energy Community</b> ex. Brownfield site, area related to mining operations)	+10%
<b>Siting in Low-Income Community</b> or on Indian Land	+10%
<b>Qualified Low-Income</b> Residential Building Project or Economic Benefit Project	+20%





# Low-Income Communities Bonus Credit Program



## LEGEND

### Legend

### Overlapping Color Legend

#### Category 1 Eligibility

##### Tract Status

Census tracts that meet the New Market Tax Credit Program's threshold for Low Income



#### Additional Selection Criteria | Geographic Option 1 | CEJST Energy

##### Tract Status

Census tracts that meet the Climate and Economic Justice Screening Tool's threshold for disadvantage in the Energy Burden category



#### Additional Selection Criteria | Geographic Option 2 | Persistent Poverty County

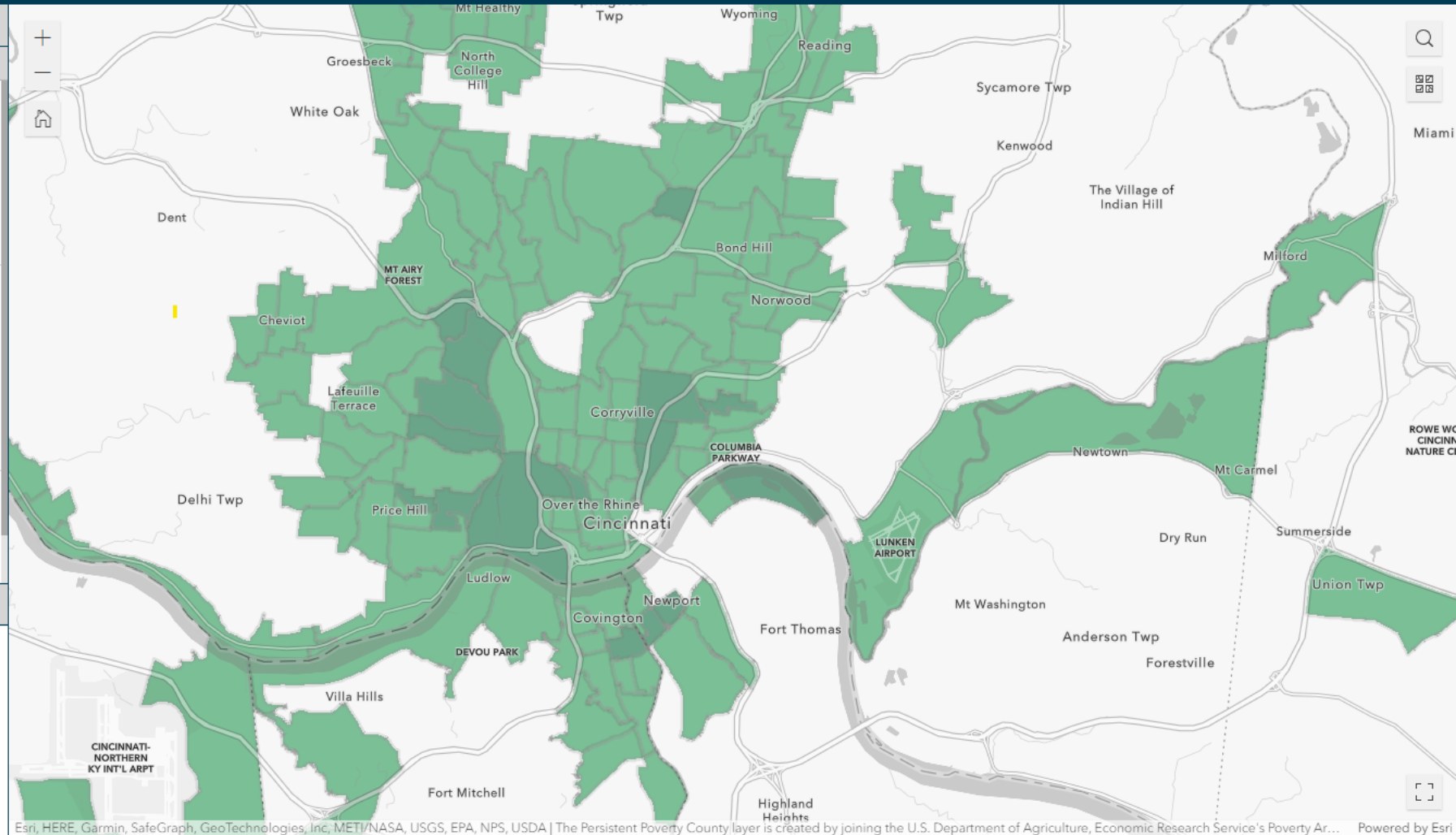
##### County Status

Counties that meet the USDA's threshold for Persistent Poverty



## MAPLAYERS

- Category 1 Eligibility ...
- Additional Selection Criteria | Geographic Option 1 | CEJST Energy ...
- Additional Selection Criteria | Geographic Option 2 | Persistent Poverty County ...



Esri, HERE, Garmin, SafeGraph, GeoTechnologies, Inc, METI/NASA, USGS, EPA, NPS, USDA | The Persistent Poverty County layer is created by joining the U.S. Department of Agriculture, Economic Research Service's Poverty Ar... Powered by Esri

# Brownfields to Brightfields

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Goal of study is to determine pathways to transform brownfields and greyfields sites through the installation of solar

The project will:

- Analyze the solar potential of existing brownfield and greyfield sites
- Identify funding mechanisms and implementation challenges
- Recommend three sites that are suitable for piloting a Brightfields program
- Provide cost estimates for pilot sites



# IRA Direct Pay Significantly Improves Financials

Business As Usual	<u>30% IRA</u>	<u>40% IRA</u>
\$18.8M Investment	<b>\$18.8M</b> Investment	<b>\$18.8M</b> Investment
\$0.0M Direct Pay	<b>\$5.6M</b> Direct Pay	<b>\$7.5M</b> Direct Pay
\$2.9M NPV	<b>\$8.4M</b> NPV	<b>\$10.2M</b> NPV
4.1% IRR	<b>7.0%</b> IRR	<b>8.3%</b> IRR
17.4 yrs Payback	<b>12.2 yrs</b> Payback	<b>10.6 yrs</b> Payback



# Electrified Fleet – Direct Pay Benefits

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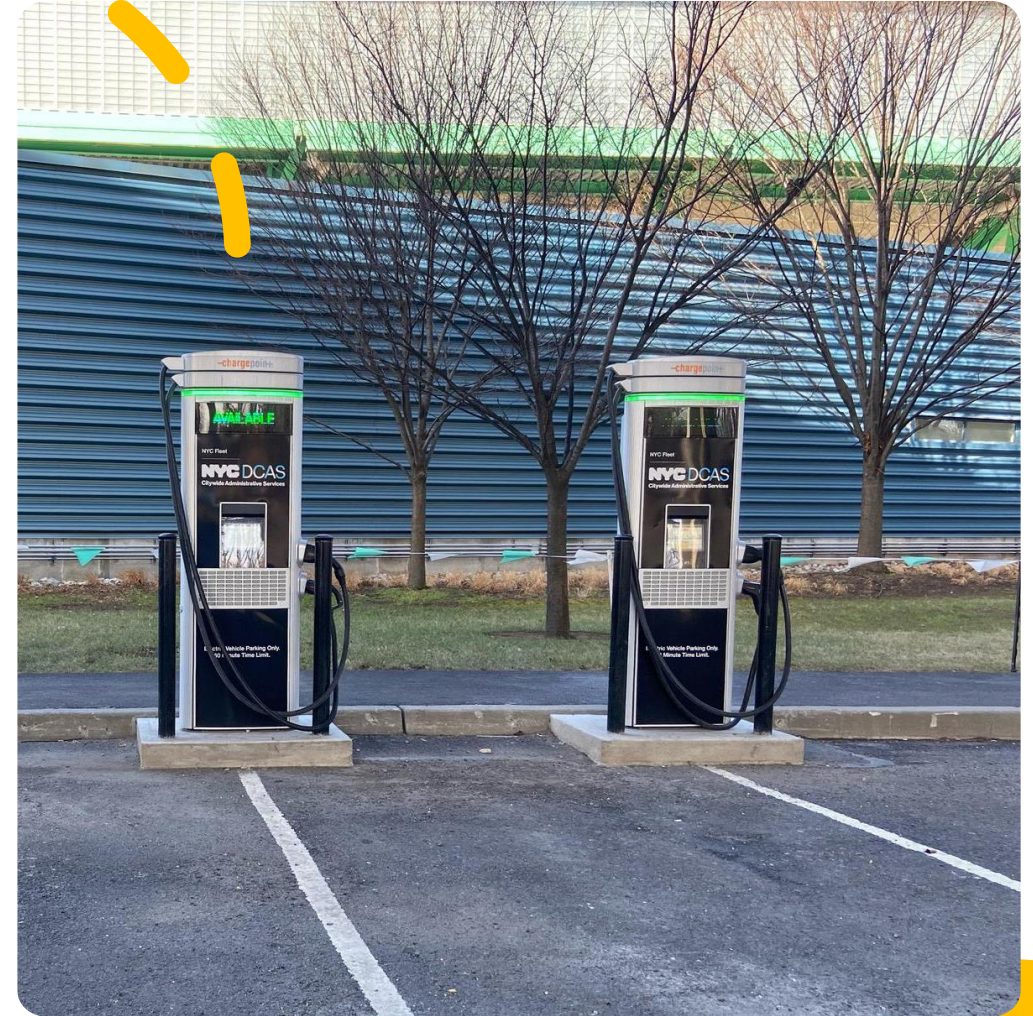
The Commercial Clean Vehicle Credit (IRC 45W) closes the cost gap between ICE vehicles and EVs

- Direct pay benefit equal to the lesser of 30% of the purchase price or the incremental cost of the vehicle
- \$7,500 max benefit for vehicles under 7 tons
- Includes mobile machinery (lawn mowers)
- \$40,000 max benefit for vehicles over 7 tons



# EV Chargers – Direct Pay Benefits

- For commercial uses, the tax credit is 6% with a maximum credit of \$100,000 per unit
- Businesses meeting prevailing wage and apprenticeship requirements may be eligible for a 30% credit with the same \$100,000 limit.
- The equipment must be placed in a low-income community or non-urban area.



# Electrified Fleet – Laying the Groundwork

## Fleet Electrification Plan

- Slated to begin in December 2024
- Includes
  - Electrification strategy
  - Identification of charging locations
  - Charging strategy

## Charging Infrastructure

- RFP process complete
- Project will leverage the fleet electrification plan



# Electrified Fleet – Operational Savings

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## Assumptions:

- Number of vehicles – 10
- Annual vehicle mileage – 12,000
- Fuel economy – Explorer (24), Bolt EUV (115)

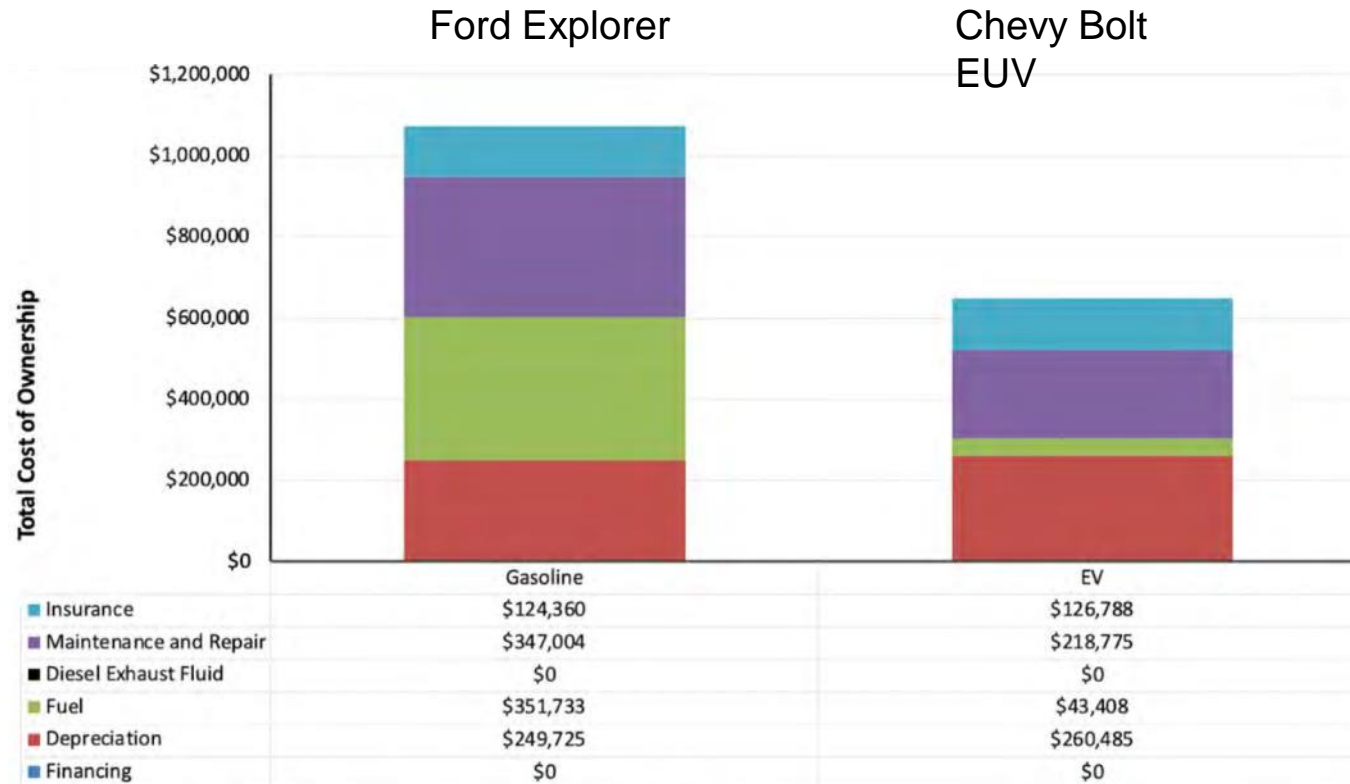


2022 Ford Explorer  
Base MSRP - \$28,278



2022 Chevy Bolt EUV  
Base MSRP - \$29,946

# Electrified Fleet – Operational Savings



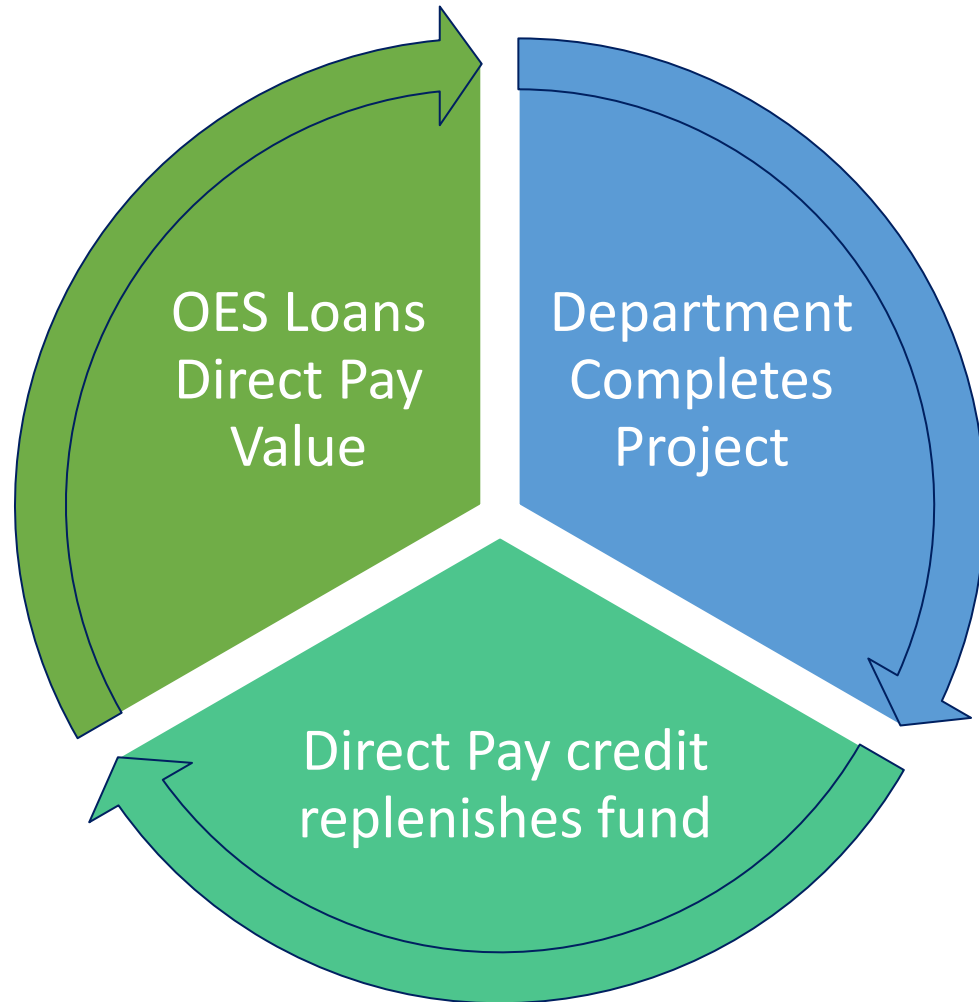
Total Cost of Ownership \$1,077,758 Gasoline

\$588,201 EV

10 Vehicles



# OES Revolving Loan Fund

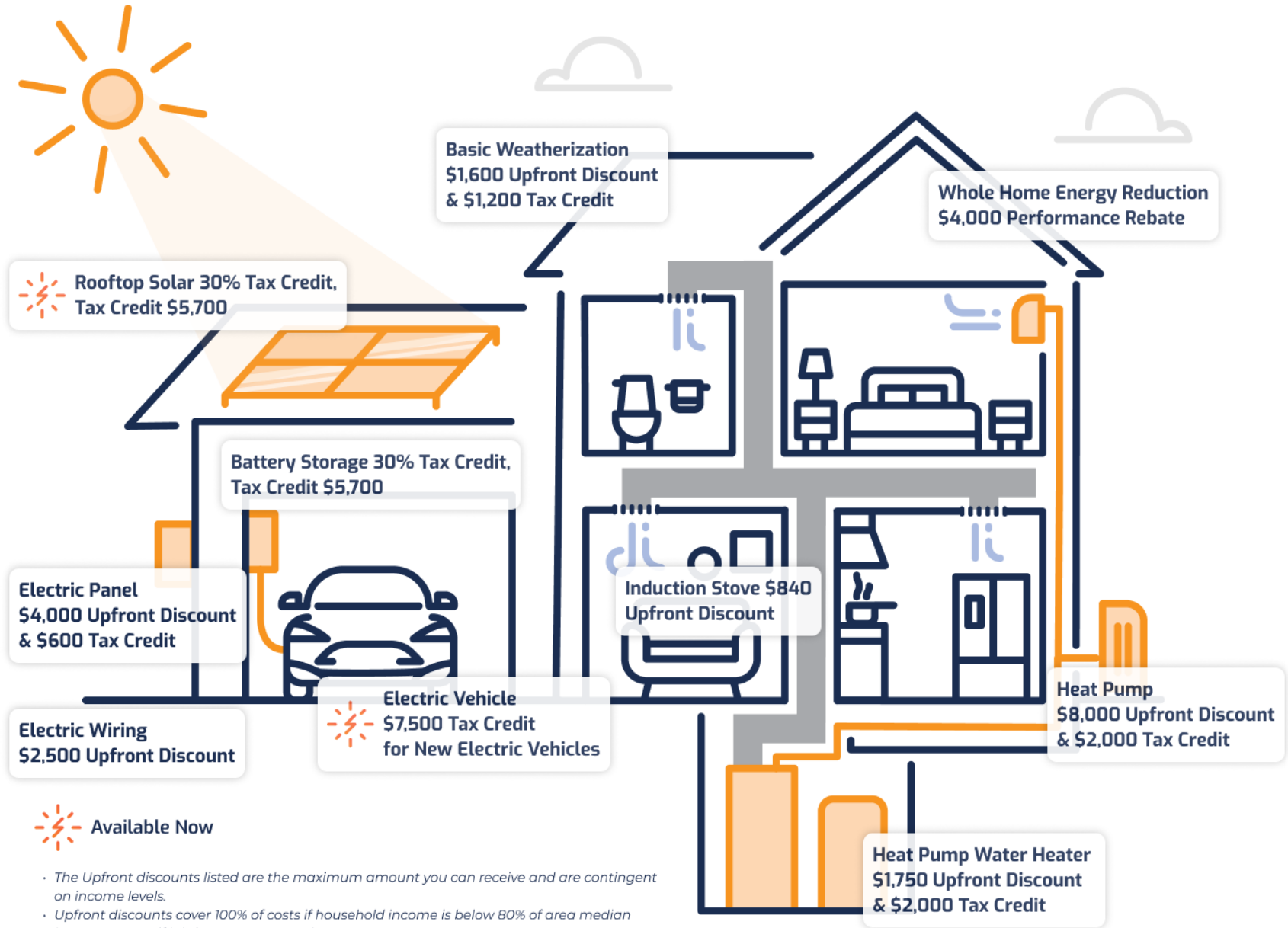


- Provide funding to cover direct pay eligible costs
- Help address performance related deferred maintenance
- Subsidize the cost premium associated with high performance buildings & electric vehicles
  - Help departments avoid operational costs over time
- Recover direct pay benefits to reinvest the dollars
- **\$2M of seed funding, Fleet Garage project already underway**



## Affordable Housing & Community Benefits

# Coming soon for Homeowners



## Available Now

- The Upfront discounts listed are the maximum amount you can receive and are contingent on income levels.
- Upfront discounts cover 100% of costs if household income is below 80% of area median income, or 50% if it is between 80% and 150%.
- Tax credits are dependent on your tax appetite. Tax credits earned in 2023 will be applied to your 2023 tax return you submit in 2024. Please consult a tax professional if you have the tax appetite to qualify.

# State Rebate Incentives for Affordable Unit Improvements

<b>Projected energy savings</b>	<b>Maximum rebate for households above 80% AMI</b>	<b>Maximum rebate for households below 80% AMI</b>
20-35%	50% of project costs up to \$2,000/unit (maximum \$200,000 for multifamily building)	80% of project costs up to \$4,000
>35%	50% of project costs up to \$4,000/unit (maximum \$400,000 for multifamily building)	80% of project costs up to \$8,000

# Target Audience: CMHA & Affordable Housing Providers

- Use this as an opportunity to encourage more landlords to get (and stay) in CMHA program.
  - Provides landlords better credits to do Cap X improvements and keep prices affordable
  - Can assist in underwriting new affordable housing developments
  - Ability to leverage with OES program funds to maximize impact
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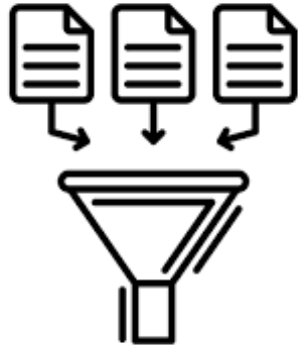


# Direct Pay – Process

- 1 Identify and pursue the qualifying project or activity
- 2 Complete pre-filing registration with the IRS
- 3 File tax return (for a local government, typically Form 990-T and 3800)
- 4 Payment typically occurs within 45 days after due date. Payment will not occur before the due date even if filed early (per Statute).

# Direct Pay – Next Steps

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Develop a system to track data for filing and compliance purposes.



Identify legal support to navigate tax code changes.



Confirm that the City's audit firm can handle tax compliance work related to direct pay.

# Potential Departmental Roles – next 10 years

- **OES & OGA** – track and communicate IRA opportunities to departments, launch revolving loan fund to reduce cost barriers
- **Budget, Finance & Law** – help understand and execute IRS reporting process, consider financing mechanisms to make the most of these credits
- **Parks, Rec, Public Services** – mapping facilities projects that can take advantage of these new programs
- **Fleet** – build direct pay and operational cost considerations into fleet procurement cost projections
- **DOT** – consider direct pay credits in projects involving EV charging
- **DCED & Human Services** – communicate these benefits to housing developers and community non-profits who can participate
- **MSD and Waterworks** – strategize around clean energy projects to reduce operational costs
- **Procurement** – Facilitate RFP process to bring in a team of vendors ready to maximize these benefits