# Tax-Exempt Organizations and the Inflation Reduction Act

12pm Tuesday, March 21, 2023

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## Presentation Outline

- Solar basics
- Hypothetical Decorah non-profit solar analysis
- Direct ownership versus power purchase agreement (PPA)
- IRA: 30%+ Investment Tax Credits for solar
- Commercial clean vehicle credit

Where are you from- local government, school district, non-profit, museum?

# Solar Basics

- **Net Metering** is the ability to produce electricity at one point in time and receive credit to be used later for excess power that is exported to the grid. *Net metering makes solar economical.*

- Solar is **sized** to produce up to (or less) than annual electric usage. Generally speaking, rules prohibit you from net metering solar capacity above and beyond your historic electric usage. *In other words, solar can't be used as a cash register.*

- Solar has to be **tied to a specific meter.** How many meters does your organization have? How many of those locations are conducive to solar? High-use meters subject to demand charges (and low per/kWh energy charges) often result in poor return on investment.

- **Efficiency improvements** are oftentimes cheaper than solar and should be done prior. Incandescent vs LED, resistance water heater vs heat pump water heater

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# Hypothetical Decorah Non-Profit

**Facility:**

Older 13,300 square foot office building, 30 employees, business hours M-F, gas heat, summer air conditioning

**Efficiency Improvements made prior to solar:**

$7,600 lighting upgrades with a payback of about 4 years

$3,000 replacement of electric resistance water heater with heat pump water heater with a payback of about 3.5 years

**Electric Usage:**

$912/month (5580 kWh/month) *before* efficiency improvements

Estimated $761/month (4670 kWh/month *after* efficiency improvements

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# Hypothetical Decorah Non-Profit

**Solar Array:**

40.75 kW (About 100 panels) Array at $2.25/watt: **$91,700**

Cost of system after 30% investment tax credit: **$64,180**

**Financial Analysis:**

Payback *with* 30% ITC, paid for upfront: **About 7 years**

Payback *with* 30% ICT, financed (7.5% / 12 years): **About 10.5 years**

Lifetime (25 year) retail value of electricity production: **$289,000**

Lifetime savings (excluding maintenance, insurance or unforeseen costs): **$225,000**

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# Direct Ownership Basics

*User builds and finances a solar array to offset a certain share of organization's electric use*

- Tax-exempt organizations like **501(c)'s, schools, state, local and tribal governments, and RECs** are now eligible for direct pay reimbursement of the 30% tax credit
- Relatively **straightforward process**: Solicit contractor bids and select contractor, project build, submit documentation at tax time for reimbursement of value of credit
- **Simple payback** of about 7 years (Alliant customers) or about 10 years with MiEnergy
- Works great for organizations that **can fund projects upfront**- financing can lengthen payback period significantly
- **Iowa school districts**: Budget wall between operational funds and capital expenditures- freeing up of energy costs in operational budgets makes solar very attractive
- For large **commercial users** subject to demand charges and low per/kWh energy rates, solar might not make financial sense, even with ITC!

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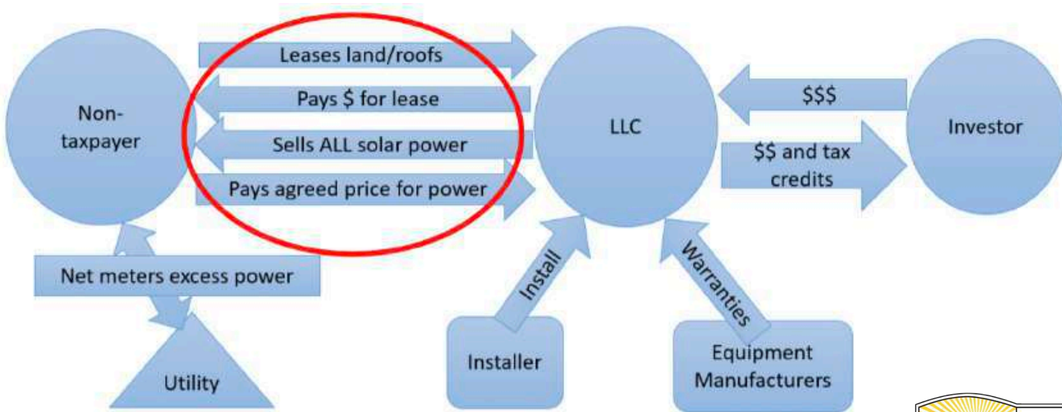
# Power Purchase Agreements (PPA)

*A solar PPA is a contract between a non-taxpayer and a for-profit entity (LLC) that effectively allows a non-taxpayer to access solar tax credits.*




# SPPA: Major Components

- AGREEMENT OF THE LLC TO INSTALL AND MAINTAIN THE SOLAR SYSTEM FOR THE TERM OF THE CONTRACT
- AGREEMENT OF THE NON-TAXPAYER TO PURCHASE ALL OF THE POWER PRODUCED
- RIGHT OF THE NON-TAXPAYER TO “CALL” THE CONTRACT AND NEGOTIATE TO BUY THE SYSTEM AFTER THE TAX BENEFITS ARE EXHAUSTED
  - But buyout price cannot be agreed in advance
- AGREEMENT OF THE LLC TO REMOVE THE SOLAR INSTALLATION AT THE END OF THE CONTRACT (UNLESS BOUGHT OUT)

# SPPA: Where the Gains Are

- TO THE NON-TAXPAYER:
  - PURCHASES POWER AT BELOW-UTILITY RATES UNTIL BUYOUT
  - BUYS THE SYSTEM AT LESS THAN ORIGINAL COST
  - PAYS 0₵ PER KWH AFTER BUYOUT
    - HAS TO PAY FOR INSURANCE AND MAINTENANCE
- TO THE INVESTOR
  - RECEIVES MONTHLY INCOME UNTIL THE BUYOUT
  - RECEIVES TAX CREDIT
  - HAS TAX LOSSES (i.e., tax reductions) FROM SYSTEM DEPRECIATION
  - RECEIVES PAYMENT FOR THE BUYOUT

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# SPPA vs. Direct Ownership

- RELATIVE ADVANTAGE IS HIGHLY DEPENDENT ON INDIVIDUAL SITUATION AND ISSUES
  - FOR EXAMPLE, IS THE DISCOUNTED OR NOMINAL VALUE MORE IMPORTANT TO YOU?
- WHETHER AND HOW MUCH YOU NEED TO BORROW IS PARTICULARLY IMPORTANT
- SPPA IS COMPETITIVE WITH DIRECT OWNERSHIP (without borrowing) <u>IN A GENERIC SITUATION</u> (and probably better on a discounted basis or if direct buy requires borrowing and SPPA buyout doesn't)
- MODEL YOUR SITUATION

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# IRA: Investment Tax Credits and Direct Pay

*NTEs can apply for direct pay reimbursement equal to the value of the tax credit of 30% (awaiting IRS guidelines)*

**30% Base Credit:** Apply for reimbursement (likely at tax time) for the value of the tax credit. Valid for next 10 years and non-competitive application process (unlimited program funding).

**10% or 20% Adders:** Yearly adder-specific production caps. Applicant applies for adders *but is not guaranteed to receive one (yearly nation-wide production/ dollar caps)*. Some adders can be stacked, with a maximum total (including 30% base credit) not to exceed 70% of project cost.

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# Low-Income Communities Bonus Credits

*Project can receive no more than 1 adder from this group*

**Low-income Community (10%):** Project in census tract where household poverty rate is at least 20% *or* where median household income does not exceed 80% of statewide median income

**Tribal lands (10%):** Project located on tribal land pursuant to 25 US Code 3501(2)

**Low-income residential project (20%):** Multifamily rental housing classified under section 236 of the National Housing Act

**Low-income economic benefit project (20%):** At least 50 percent of the financial benefits of the electricity produced by such facility are provided to low-income households

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# Stackable Credits

*Project can receive both*

**Energy Community (10%):** Project built on brownfield site *or* on census tract on which a coal mine/coal power plant closed after 1999 *or* area that has (or had at any time during the period beginning after Dec. 31, 1999) significant employment or local tax revenue related to the extraction, processing, transport or storage of coal, oil, or natural gas

**Domestic Content (10%):** Projects must certify that any steel and iron or any manufactured product that is a component of the facility was produced in the US. Construction material made primarily of steel or iron must be 100% produced in the US, but this does not apply to steel or iron used as components or subcomponents of other manufactured products.

# Commercial Clean Vehicle Tax Credit

*Tax-exempt organizations that buy a qualified commercial clean vehicle may qualify for a clean vehicle tax credit of 30% up to $7,500.*

- Applies to pure electric vehicles and plug-in hybrids with batteries 7 kW or larger
- Battery and critical mineral sourcing rules of the personal EV tax credit do not apply to the commercial clean vehicle tax credit!
- EV charging infrastructure tax credit: 30% up to $1,000

## Thanks for coming!

Q&A?

Comments?

Experiences?