



Federal Funding Opportunities

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Inflation Reduction Act (“IRA”): Items to Remember

- ◆ No Free Lunch
- ◆ Size Matters
- ◆ Can materially reduce the cost of your current and future sustainability and de-carbonization efforts
- ◆ It's in there!
- ◆ It takes a village



Question #1:

**Does my organization have
renewable goals or regulatory
mandates to de-carbonize and be
greener?**



Inflation Reduction Act: Overview

Largest investment in U.S. Energy Infrastructure, with varied incentives to help subsidize the cost of achieving environmental goals.

- ◆ Signed into law on **August 16th, 2022**
- ◆ Provides **\$369 billion over the next decade** for new & existing programs
- ◆ Goal of **reducing emissions by ~40% by 2030**
- ◆ Potential for **tax incentives** to touch multiple aspects of your community
 - Installation of **energy facilities** (e.g., solar, wind, microgrid, biogas projects)
 - Conversion of **vehicle fleets** to electric/hybrid
 - Electric Vehicle (EV) deployment to include the **charging station** network
 - Energy **efficient building** design & construction (to include geothermal)
- ◆ The U.S. Treasury **continues to provide more detailed guidance as first wave of applications for the IRA incentives has now been submitted (April / May 2024)**



Question #2:

Do the projects associated with my renewable goals or regulatory mandates qualify for the Inflation Reduction Act incentives?



IRA Sectors Supported

The IRA supports a wide variety of sectors and sub-sectors with clean electricity, transmission, and clean transportation programs.

Energy



Electricity technology / infrastructure investment, oil & gas, battery production, nuclear, solar, wind transmission, alternative fuels

Industry & Manufacturing



Domestic manufacturing, clean energy equipment, facilities, critical materials, supply chain

Environmental



Air pollution, carbon removal, environmental quality, environmental justice, conservation

Building



Homebuilding, energy efficient & electrification, climate resilience, HUD-assisted properties

Agriculture



Farming, resiliency, wildfire management

Transportation



Vehicles, EV Charging stations, aviation, ports / waterways, public transit

Water



Water quality, covering canals with solar panels



Question #3:

How will we receive this incentive?



IRA Funding Mechanisms

Tax Credits

- **Largest funding mechanism in the IRA** primarily coming from investment tax credits (ITC) and production tax credits (PTC) available to businesses, individuals, and tax-exempt entities
- Introduced new funding mechanisms and provisions such as **direct pay, bonus credits and stackability** that have increased the pool of eligible recipients and amplifies incentive-based structures

Grants

- Grants provide governments funding to stakeholders that are not expected to be paid back and come in subtypes that include (i) **non-competitive grants** awarded to state and local governments often utilizing a “**formula**” to determine size and eligibility (ii) **competitive grants** awarded by federal agencies via application processes and (iii) **rebates** processed after a transaction is complete
- **For example, Solar For All grant**

Loans

- **Basic loans offering flexible financing options** to support critical clean energy, manufacturing and clean vehicles projects.
- **For example, the Department of Energy’s Loan Programs Office (DOEs LPO) loan guarantee program**

Cooperative Agreements

- Similar to grants, cooperative agreements differ in that they provide **substantial involvement between federal awarding agency or pass-through entity and the non-federal entity** in carrying out the purposes of the agreements.
- **For example, the National Clean Investment Fund grant**



Question #4:

What specific incentive apply to my projects?



Inflation Reduction Act: PTC and ITC Details

| Renewable Energy Facilities | |
|------------------------------|--|
| Incentive | Production Tax Credit (PTC): <ul style="list-style-type: none">Funds received over time10 years, \$26/per MWh, adjusted for inflation assuming fair wage & apprenticeship requirements are met15% reduction if tax-exempt financing is used |
| Example Projects | Installation of solar & wind facilities |
| Eligible Projects | Solar, wind, landfill gas, geothermal, biomass, trash, qualified hydropower, marine & hydrokinetic resources |
| Bonus Credits | <ul style="list-style-type: none">10% for meeting domestic content requirements10% for projects located in energy communities |
| Timing Considerations | <ul style="list-style-type: none">Eligible projects are projects that start construction by December 31, 2024 (geothermal extended to 2035)*.The technology-specific PTC ends in 2024 and is replaced by a new technology-neutral PTC (\$45Y) starting in 2025.Start phasing out in 2032 . |
| Implication | <i>Can finance a renewable project with tax-exempt debt & claim 85% of the Production Tax Credit.</i> |

| |
|---|
| Investment Tax Credit (ITC): <ul style="list-style-type: none">Funds received upfront (reimbursement)30% of eligible construction costs of a renewable energy facility assuming fair wage & apprenticeship requirements are met15% reduction if tax-exempt financing is used |
| Installation of solar & wind facilities; biogas digesters for sewer utilities |
| Solar, fuel cells, waste energy recovery, combined heat & power, small wind property, energy storage, qualified biogas property, electrochromic glass, microgrid controllers, geothermal |
| <ul style="list-style-type: none">10% for meeting domestic content requirements10% for projects located in low-income communities20% for projects in qualified low-income residential building or low-income economic benefit project10% for projects located in energy communities |
| <ul style="list-style-type: none">Eligible projects are projects that start construction by December 31, 2024 (geothermal extended to 2035)*.The technology-specific ITC ends in 2024 for most technologies and is replaced by the new technology-neutral clean electricity ITC (\$48E), which begins in 2025.Start phasing out in 2032 |
| <i>Can finance a renewable project with tax-exempt debt & receive a direct payment from the IRS for up to ~25.5% of eligible construction costs.</i> |

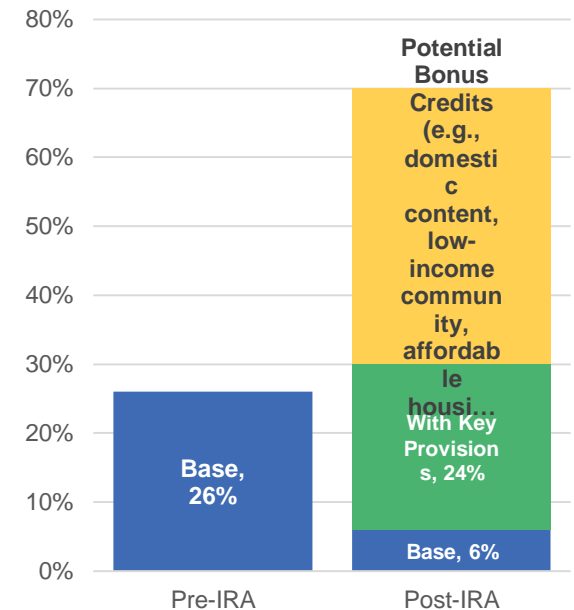


Key Provision: Investment Tax Bonus Credits

Bonus credits can be applied to some of the IRA's base tax credits for clean energy projects that meet goals related to workforce, labor, priority communities, and domestic industries. The amount of bonus credits vary and can each range up to 10%.

| Bonus Credit | Eligible Projects |
|---|---|
| Prevailing Wage and Registered Apprenticeship Requirements | Projects that employ apprentices from registered apprenticeship programs for a certain number of hours and pay prevailing wages |
| Domestic Content | Facilities built using required amounts of domestically produced steel, iron, and manufactured products. |
| Low Income or Tribal Communities | Facilities in low-income communities and tribal communities, including facilities that are part of federal housing projects or benefit lower income households. You must apply and receive a capacity allocation, and then place your facility in service to claim this bonus. |
| Energy Communities | Projects located in communities historically dependent on fossil energy jobs and tax revenues, including areas with closed coal mines or coal fired power plants, and on brownfields. |

Renewable Energy Investment Tax Credit (Sample)



**The amount of a direct payment may be phased out for applicable properties that do not satisfy domestic content requirements and have a maximum net output of one megawatt or more. The phaseout is a percentage of the otherwise allowable amount. The phaseout percentage is 90% for properties that begin construction in 2024. Under Sections 45Y and 48E, the phaseout percentage is 85% if construction begins in 2025 and zero if construction begins after 2025.*



Clean Energy Tax Credits and Local Government Project Examples

Qualified Commercial Clean Vehicle Tax Credit

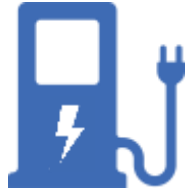


| Qualified Commercial Clean Vehicle | |
|------------------------------------|---|
| Example Projects | Electrification of police fleet, school buses, ambulances, & garbage trucks |
| Eligible Projects | <ul style="list-style-type: none">• Plug-in electric vehicles, fuel cell vehicles• Varying weight & battery capacity requirements• For use on public streets, roads & highways |
| Incentive | <p>Tax credit (i.e., direct payment to the District) is the lesser of:</p> <ul style="list-style-type: none">• 15% of vehicles cost (30% for vehicles not gasoline or diesel powered)• Incremental cost of clean versus “non-clean” (e.g., gasoline, diesel) vehicle <p>Max amounts linked to vehicle size:</p> <ul style="list-style-type: none">• <7 tons: \$7,500/vehicle• >7 tons: \$40,000/vehicle (e.g., school buses, heavy-duty municipal vehicles) |
| Timing Considerations | Vehicles must be acquired after December 31, 2022 & before the end of 2032 |
| Implication | <i>Can replace vehicle fleets with cleaner options and receive a direct-pay subsidy to reduce the cost – although hybrid options could be limited.</i> |



Clean Energy Tax Credits and Local Government Project Examples

Alternative Fuel Refueling Property Tax Credit (i.e., “Charging Station” Credit)



| Alternative Fuel Refueling Property Tax Credit | |
|--|---|
| Example Projects | Installation of Electric Vehicle (EV) charging stations and supporting infrastructure |
| Eligible Projects | Property for the storage or dispensing of clean-burning fuel (CNG, LNG, electricity, hydrogen) or electricity into the vehicle fuel tank or battery; includes bidirectional charging equipment |
| Incentive | <div>Tax credit (i.e., direct payment to the County), with max of:</div> <ul style="list-style-type: none">• 30% of costs, assuming fair wage & apprenticeship requirements are met (6% of costs if not) OR<ul style="list-style-type: none">• \$100,000 per unit |
| Timing Considerations | <ul style="list-style-type: none">• Starting in 2023, only eligible if placed within low income or rural areas• Incentive expires after December 31, 2032 |
| Implication | <i>Could potentially receive tax credits for expansion of local EV charging networks.</i> |

Sources: Congressional Research Service, "Tax Provisions in the Inflation Reduction Act of 2022", August 10, 2022; <https://bipartisanpolicy.org/blog/a-status-update-on-ev-charging-infrastructure-investments-in-the-ijia/>



Question #5:

Do the “key provisions” apply to my project and incentive?

How difficult will it be to comply with the “key provisions”?

What is the benefit of compliance?



Example: Key Provisions and Bonus Credits

| Efficiently Designed Multi-Family Residential Building or Small Business | | | | |
|--|---------------------|-------------------------|--------------------|--------------------|
| Project Cost | | <u>Qualify for ITC?</u> | <u>ITC Percent</u> | <u>ITC Savings</u> |
| Site Acquisition | \$ 500,000 | No | 0% | \$ - |
| Solar | 2,500,000 | Yes | 30% | 750,000 |
| E-Car Chargers | 250,000 | Yes | 30% | 75,000 |
| Other Construction | <u>10,000,000</u> | No | 0% | - |
| Total Project Cost | \$13,250,000 | | | \$ 825,000 |
| Savings as a Percent of Total Project | | | | 6% |
| Additional ITC Opportunities | | | | |
| | | <u>Qualify for ITC?</u> | <u>ITC Percent</u> | <u>ITC Savings</u> |
| Domestic content used? | | Yes | 10% | \$275,000 |
| Located in low-income community? | | Yes | 10% | 275,000 |
| Total Additional | | | | \$550,000 |
| Total ITC Savings | | | | \$1,375,000 |
| Total ITC Savings as a Percent of Total Project | | | | 10% |



Question #6:

**Who is needed or who can assist
with the application process?**



IRA: Where to begin for larger projects?



PFM generally recommends establishing a **“Due Diligence Team”** to review these opportunities as well as evolving guidance from US Treasury.

Composition includes:

Finance
Legal
Procurement
Facilities
Bond Counsel
Tax Counsel
Financial Advisor
Consulting Engineer
Auditor

- ◆ **Identify & evaluate IRA incentives** that may support your objectives.
 - Review ownership alternatives, forms of tax credit structures and optimal use of co-funding and financing alternatives
 - For projects under construction, determine eligibility & track eligible costs for reimbursement (accountant attestation)
 - Identify the location of “energy communities”
- ◆ Consider **accelerating** certain programs or projects in light of the step-down in incentives or more stringent requirements
- ◆ Consider **adding** programs or projects in light of incentives available
- ◆ Identify opportunities to combine credits & increase credits
 - Identify any overlap in IRA & other incentives
- ◆ **Awareness campaign** for incentives available to residents & businesses
- ◆ Review of grant funding and other national green bank opportunities in the IRA (not covered in this presentation)



Inflation Reduction Act (“IRA”): Items to Remember

◆ No Free Lunch

Must adhere to Fair Wage, Apprenticeship and Domestic Content requirements

◆ Size Matters

Small projects (<1MW) do not need to comply with Fair Wage, Apprenticeship and Domestic Content requirements

◆ Can materially impact cost of sustainability and decarbonization efforts

30% Investment Tax Credit + “Stackable” Bonus Credits

◆ Its in there!

Applies to a wealth of technologies and efforts – many of which your organization are likely already doing!

◆ It takes a village

Collective effort, internally and externally



Thank you



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