

# IRA: Putting Direct Pay into Action

Thanks to the [Inflation Reduction Act's \(IRA's\) Direct Pay \(also called Elective Pay\) provisions](#), cities will, for the first time, be able to receive a payment equal to the full value of tax credits for qualifying clean energy projects, including: greening buses, ambulances, and other public vehicles; investing in community solar projects; transitioning municipal utilities to renewable energy sources; and [creating electric vehicle charging infrastructure](#). Qualifying projects fall under four broad categories covering 14 distinct tax credits, and payments to cities come directly from the U.S. Department of Treasury through the Internal Revenue Service once the city pre-registers the project and files the correct forms to the IRS. The pre-registration process is currently being tested and will be available by the end of 2023.

On December 12, 2023, the Local Infrastructure Hub hosted a session to discuss how cities can use IRA Direct Pay to finance a variety of [clean energy projects](#) that reduce carbon emissions and contribute to national climate goals. Mayor Daniel Rickenmann of Columbia, SC; Doug Melnick, San Antonio's Chief Sustainability Officer; and Elizabeth Babcock, Denver's Executive Director of Climate Action, Sustainability, and Resiliency explored the types of projects that IRA Direct Pay can help finance and accelerate. David Elchenthal, Senior Advisor for Policy Implementation and Delivery at the White House, also shared insights on how cities can use Direct Pay tax credits to transition toward a clean energy economy. This session also featured Amy Turner, Director of the Cities Climate Law Initiative at the Sabin Center, who shared how cities can prepare to take full advantage of Direct Pay.

## Key Insights Shared

- **Have an action plan in place.** When considering how to take full advantage of IRA's Direct Pay provisions, David Elchenthal highlighted that cities should consider developing a plan of action to: build a team and establish a planning process, obtain funding/financing for, and implement critical clean energy investments; focus on collaboration across sectors; clearly define roles to ensure coordination across your team and among your partners; and think about how best to address issues of equity.
- **Interdepartmental and inter-sector collaboration is essential.** San Antonio is investing in a \$30 million [Multi-Site Municipal Solar](#) project to install 13.1 megawatts of solar across 42 city-owned facilities and parking lots – making this the biggest solar project in the state of Texas. The city relied on a solar delivery team working across departments including public utility, finance, and the Office of Sustainability. Only through this collaboration could the City decide on sites for the solar project based on financing, technical feasibility, current electricity consumption, estimated solar generation, and renovation plans. David Elchenthal noted that collaboration and partnerships with nonprofits and the private sector can also benefit or expand the scope of projects.
- **The capital stack could mean huge benefits for cities.** Cities can maximize direct pay credits by stacking them on top of other IRA grants and loans and then meeting certain requirements and bonuses. There is a domestic content bonus, an energy communities bonus, and a low-income communities bonus that together could give cities up to a 50% tax credit on clean energy projects. For example, on top of current IRA funds, San Antonio's solar project is eligible for an additional \$2.18 million in IRA Direct Pay low-income credits, and the city mentioned that their project would not have been viable without the ability to access IRA Direct Pay funds.

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- **Think big.** Columbia's [Climate Protection Action Committee \(CPAC\)](#) developed several strategies to mitigate greenhouse gas emissions within the city. Mayor Rickenmann discussed how the plan was to pick one or two of these projects to complete over a long period. However, [Direct Pay has accelerated the City's clean energy timeline significantly](#). Now, the City is working on reconstituting its historic hydro plant, enhancing the wastewater plant, and turning waste into fertilizer.
- **Greening your city can eventually generate cost savings or revenue; consider reinvesting Direct Pay into further climate action.** Both San Antonio and Columbia discussed that their projects will eventually generate cost savings or revenue for the city. In 2020, the City of Denver approved a .25% sales tax to create the [Climate Protection Fund \(CPF\)](#) for renewable energy, battery storage, fleet electrification, and more. [Denver is planning to reinvest the Direct Pay funds into the CPF](#), where they will be reinvested into climate action to accelerate the City's clean transition plan. For cities looking into alternative ways to fund the up-front costs of projects, the [Greenhouse Gas Reduction Fund](#), which will begin implementation in mid to late 2024, will be a possible financing option.
- **Look at what Direct Pay means from an equity perspective.** All panelists stressed that clean energy projects should address equity. For example, Denver has a [Renewables & Resilience Incentive](#) program where community centers and shelters can apply for community solar; San Antonio's solar project will provide more affordable energy, create shade and weather protection, and is expected to create 15-17 full-time jobs; and Columbia is considering building an affordable housing project that utilizes solar and thermal power.

## Resources Shared During the Webinar and in Discussion

- [Webinar resources](#)
- [Information on LIH grant application boot camps](#)
- [Denver's Climate Protection Fund](#)
- [Denver's Community Solar](#)
- [San Antonio's Multi-Site Municipal Solar project](#)
- [Direct Pay Legal Assistance](#)

## Local Infrastructure Hub Bootcamp Materials

The Local Infrastructure Hub is here to support cities in communicating the success of BIL-funded projects through a mix of webinars, practical tools, and templates. Our Grant Application Bootcamp materials can guide you through different application processes and actionable steps to submit a strong application.

These materials were prepared as part of the Local Infrastructure Hub's Fall 2022 Grant Application bootcamps. They include information on how to apply for federal funds and relevant tools and templates that can be applied to your grant application. The materials focus on how to build a community engagement plan, how to leverage community assets, how to effectively incorporate data into the grant application process, and how to construct a budget and a strong grant narrative. [Upcoming Bootcamps and registration information can be found here.](#)