# Promoting Clean Energy Projects Through Direct Pay: A Resource for Cities

## Background

Under the Direct Pay provisions of the Inflation Reduction Act (IRA), cities, nonprofit organizations and other tax-exempt entities can for the first time utilize tax benefits for clean energy generation: the Production Tax Credit (PTC), and the Investment Tax Credit (ITC).

Eligible projects include those that generate energy from solar, wind, municipal solid waste, biomass, hydropower, and energy storage technologies. Notable examples include placing solar panels on public buildings, or construction of a wind farm. These two tax benefits are very similar, with the major difference being that the value of the PTC is based on the amount of energy produced by the project, whereas the value of the ITC is based on the dollar amount invested in the project.

- **Production Tax Credit (PTC):** The value of the tax credit is based upon how much energy the project generates for the first 10 years of operation.
- **Investment Tax Credit (ITC):** The value of the tax credit is tied to how much money is invested in the project in a tax year.

Note: The PTC and ITC currently restrict eligibility to specific types of projects, for example solar, wind, and biogas. This is going to change at the end of 2024, when the credits will become agnostic to the technology used to produce energy, and will be tied solely to the fact that the projects produce energy with zero greenhouse gas emissions

## Credit Amount and Bonuses

One of the most impactful elements of Direct Pay is that it includes several "bonuses" that recipients can receive if their projects meet certain criteria. These can increase the value of the credit by as much as 30%.[6] Bonus categories include:

- **Prevailing Wage and Apprenticeships:** The project pays no less than applicable prevailing wage rates and employs registered apprentices for a certain number of hours.
- **Domestic Content:** Steel, iron or manufactured products for the project are produced or manufactured in the United States. Note that in order to be eligible for this benefit, the beneficiary will have to complete a certification process by the date that the project is placed in service.
- **Energy Community:** The project is located in a community historically dependent fossil fuels, or on a brownfield site. This bonus generally increases the value of the credit by 10%. See if your community qualifies here.
- **Low-Income Community:** The project is located in a low-income, or high-poverty area. Note that cities and other eligible entities must apply to receive their bonus, which can increase the credit by between 10% and 20%.[7]

7 The Low-Income Community bonus includes separate requirements for "low-income residential building" projects and "economic benefit" projects. For more details, refer to the final guidance.

The tax credit amount varies by the Megawatts produced by the project or the investment required. The below table details the generosity of the tax benefits and bonuses:

| Category | Amount for Projects less than 1MW$^{AC}$ | Amount for Projects greater than 1MW$^{AC}$ |
|---|---|---|
| **Base Tax Credit** | ITC: 30%<br>PTC: 1.5¢/kWh (Indexed for inflation) | ITC: 6%<br>PTC: 0.3¢/kWh (Indexed for inflation) |
| **Bonus Credit: Prevailing Wage and Apprenticeship (PWA) Requirements** | ITC: N/A<br>PTC: N/A | ITC: Base x 5 (30%)<br>PTC: Base x 5 (1.5¢/kWh) |
| **Bonus Credit: Domestic Content**[8] | ITC: +2% or 10% (PWA)<br>PTC: +0.3¢ or 0.15¢ (PWA) /kWh | ITC: + 2% or 10% (PWA)<br>PTC: +0.3¢ or 0.15¢ (PWA) /kWh |
| **Bonus Credit: Energy Community** | ITC: +10%<br>PTC: +0.3¢ or 0.15¢ (PWA) /kWh | ITC: +10%<br>PTC: +0.3¢ or 0.15¢ (PWA) /kWh |
| **Bonus Credit: Allocation of Qualified Low-Income Community** | ITC: +10 or 20%[9]<br>PTC: N/A | ITC: +10 or 20%<br>PTC: N/A |

## Example Projects:

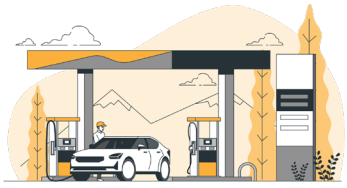
City A will install solar panels on numerous municipally-owned buildings, including a fire station, police station, library and engineering service building.

8 The amount of payment may be reduced if domestic content rules are not met. Thus, it can act as a bonus if met, and a haircut if unmet.
9 The Low-Income Community bonus includes separate requirements for "low-income residential building" projects and "economic benefit" projects, which can affect the bonus amount. For more details, refer to the final guidance.

## Example Projects Continued:

City B will own and operate a municipal water utility for sewer and drinking water, including wastewater treatment. It uses recycled water for geothermal energy and agriculture irrigation. City B will install floating solar on recycled water ponds at their wastewater facility – with the intention to install enough PV panels to fully offset the energy demand of the treatment plant. The City plans to expand the recycled water pipeline to the geothermal energy plant, increasing energy production.

City C will install a solar array on top of the municipality's closed, capped landfill – a Brownfield site – allowing the City to turn the non-productive, closed landfill into an asset.



City D will install carport solar canopies that extend shaded parking and generate energy for the municipally owned airport.

City E will construct a wind farm project consisting of numerous wind turbines to generate electricity.

## Federal Grants can be Paired with these Tax Benefits

Listed below are several federal grant opportunities through the Bipartisan Infrastructure Law and the Inflation Reduction Act that communities can leverage in tandem with the ITC and PTC.[10,11]

| Agency | Program | Overview | Implementation Status |
|---|---|---|---|
| EPA | GHG Reduction Fund: Solar for All | Through this competition, Solar for All will award up to 60 grants to states, territories, Tribal governments, municipalities, and nonprofits to expand the number of low-income and disadvantaged communities primed for residential solar investment—enabling millions of low-income households to access affordable, resilient, and clean solar energy. | EPA released $7 billion Solar for All Notice of Funding Opportunity (NOFO) on June 28, 2023. Application packages must be submitted on or before October 12, 2023. |
| EPA | Low Emissions Electricity Program | Funding includes $87 million to fund a wide range of activities to encourage low emissions electricity generation through education, technical assistance, and partnerships with consumers, low income and disadvantaged communities, industry, and state, local, and Tribal governments. | Request for Information (RFI) to inform program design closed on January 18, 2023.<br>For more information, contact: IRAStakeholders@epa.gov. |
| DOE SCEP | Grants for Energy Efficiency and Renewable Energy Improvements at Public School Facilities (referred to by DOE as "Renew America's Schools Program") | The Renew America's Schools Program to promote the implementation of clean energy improvements at K-12 public schools across the country. This first-of-its-kind investment, funded by the BIL, aims to help school communities make energy upgrades that will lower utilities costs, improve indoor air quality, and foster healthier learning environments. | The first round of this Funding Opportunity Announcement (FOA) launched in November 2022; the application period closed on April 21, 2023.<br>Selectees were announced on June 29, 2023.<br>Sign up for updates on the program here, or contact: schools@doe.gov. |

10 In limited scenarios, the tax incentive value is limited if used in tandem with federal grants.
11 Note that local governments can leverage funding from the American Rescue Plan's State and LocalFiscal Recovery Fund to hire personnel to help them identify and garner the multiple sources of funding available to support clean energy projects.

| Agency | Program | Overview | Implementation Status |
|---|---|---|---|
| **DOE SETO and WETO** | Solar and Wind Grid Services and Reliability Demonstration Funding Program | The Solar and Wind Grid Services and Reliability Demonstration funding program aims to demonstrate the reliable operation of power systems that have up to 100% of their power contribution coming from solar, wind, and battery storage resources. | DOE announced the Grid Services funding opportunity on August 2, 2022 and the eight selected projects on May 10, 2023. |
| **DOE GDO** | Preventing Outages and Enhancing Resilience of the Electric Grid Grants | The objective of this Program is to improve the resilience of the electric grid against disruptive events.<br>Eligible use of funds include the use or construction of distributed energy resources for enhancing system adaptive capacity during disruptive events, including—microgrids and battery storage subcomponents. | Program split between matching grants for industry, and formula grants for States and Tribes.<br>Matching grants funding solicitation opened in November 2022 and closed in March 2023.<br>First round of formula funding applications closed in September 2022. |

| Agency | Program | Overview | Implementation Status |
|---|---|---|---|
| **DOE OCED** | Energy Improvements in Rural and Remote Areas | The Energy Improvements in Rural or Remote Areas (ERA) program seeks to improve the resilience, reliability, and affordability of energy systems in communities across the country with 10,000 or fewer people. The ERA program will leverage DOE's expertise and experience in resilient energy solutions to modernize electric generation facilities, address disproportionately high electricity costs, and support new economic opportunities in rural and remote communities. | DOE issued first round Funding Opportunity Announcement (FOA) in May 2023; applications due by October 2023. |
| **DOE GDO** | Energy Efficiency and Conservation Block Grant Program | The Energy Efficiency and Conservation Block Grant (EECBG) Program is designed to assist states, local governments, and Tribes in implementing strategies to reduce energy use, to reduce fossil fuel emissions, and to improve energy efficiency. | See the EECBG Program Formula Grant Application Hub for more information. |