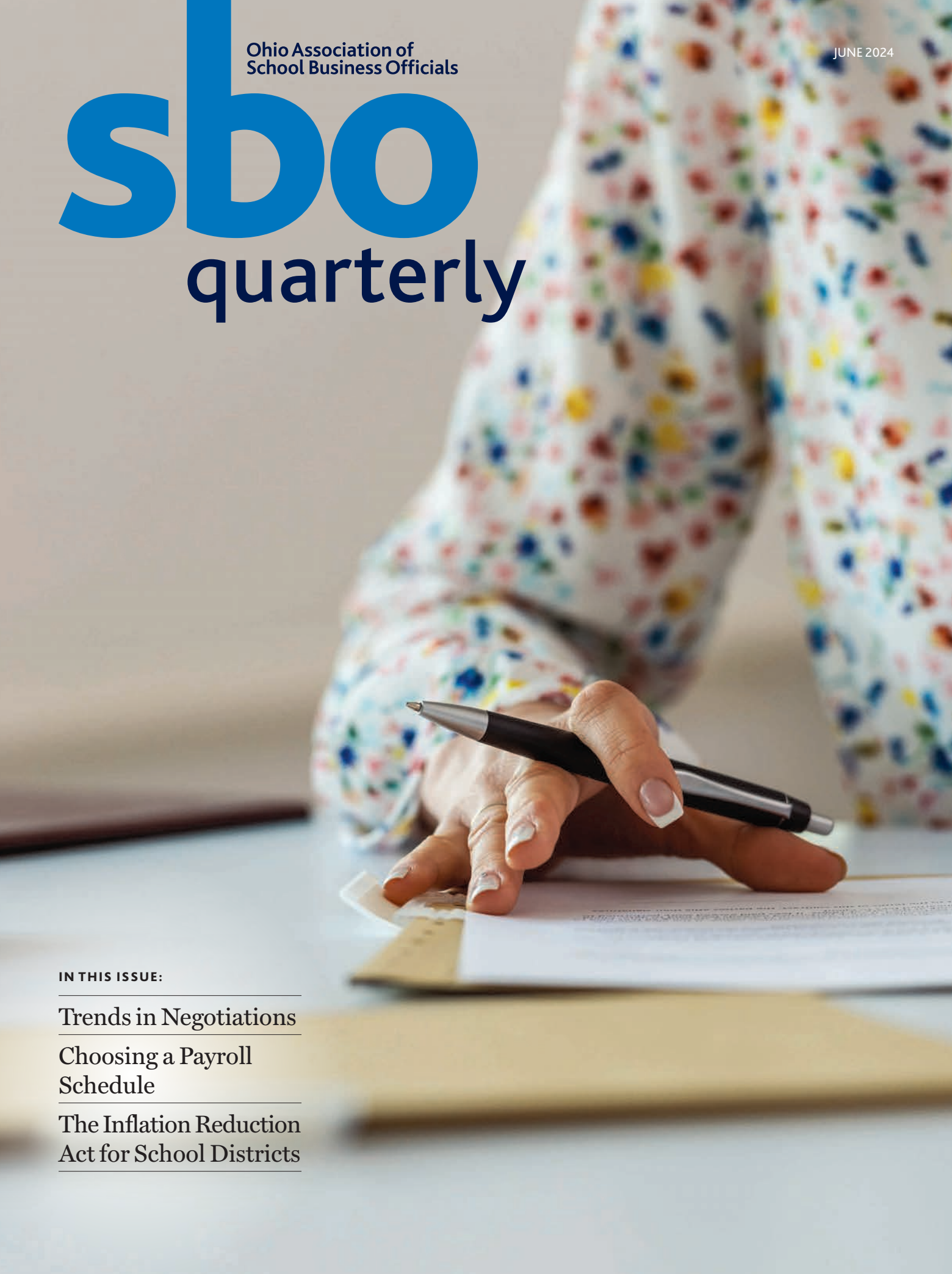
Ohio Association of
School Business Officials

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BUSINESS OPERATIONS

Inflation Reduction Act for School Districts

Read an overview of the key incentives that school districts should explore.

On August 16, 2022, the federal government adopted the Inflation Reduction Act (IRA) to overhaul the domestic clean energy industry, with three main goals in mind:

- bring related manufacturing, here, to the United States;
- increase the number of skilled workers in the domestic labor force; and
- transition the nation away from fossil fuel consumption to reduce greenhouse gas emissions.

In order to achieve these goals, the federal government had to find creative ways to incentivize both public and private entities to undertake clean energy initiatives. As a result, the federal government:

- drastically expanded the scope and weight of certain pre-existing energy tax credits and deductions;
- allocated funding for new types of grant and loan programs that target and assist historically unrepresented communities; and
- created new mechanisms for entities to monetize the value of a tax credit besides simply offsetting tax liabilities.

HOW TO MONETIZE TAX CREDITS AS A SCHOOL DISTRICT

As a school administrator, here's what you need to know: the IRA has a new elective direct payment mechanism that provides a way for tax-exempt entities (like school districts) to obtain value from energy tax credits by receiving a cash payment from the IRS. Historically, energy tax credits have been useless to tax-exempt organizations because they did not have any tax liabilities to offset. The new direct payment mechanism allows for school districts to own and operate clean energy generating, consuming, or charging assets and then receive a dollar-for-dollar cash payment equal to the value of the tax credit created by the asset. This powerful new tool makes going green much more affordable and enticing than ever before!

THREE IMPORTANT TAX CREDITS TO KEEP IN MIND

There are three main types of tax credits under the IRA for which school districts can elect to receive direct cash payments:

1. an investment tax credit (ITC),
2. a credit for the purchase of qualified commercial clean vehicles, and
3. a credit for the installation of alternative fuel vehicle refueling property (i.e. charging stations).

INVESTMENT TAX CREDITS

The IRA recently expanded one of the most well-known federal energy tax credits for property that generates or stores clean energy: the investment tax credit (ITC). With this expansion, ITCs are now available for additional types of energy properties and there is an ability to stack bonus incentives on top of the base rate of the credit to drastically increase the value of an ITC to as high as 50%–70% of the costs of constructing the energy property.

Examples of types of energy properties for which schools can receive direct payments of ITCs includes, but are not limited to:

- solar projects;
- geothermal energy HVAC systems;
- ground-source thermal energy heating and cooling systems; and
- energy storage systems.

The ITC provides a tax credit for energy properties at a base rate equal to a percentage of the costs to construct and operate the energy project. There are two potential base rates for an ITC depending on the size of energy property. If an energy property's output exceeds 1 MW (AC), or certain equivalent metrics, the base rate is 6% of the upfront eligible costs of installing the energy property. If an energy property's output is less than 1 MW (AC) the base rate is 30% of the upfront eligible costs of constructing the energy property.

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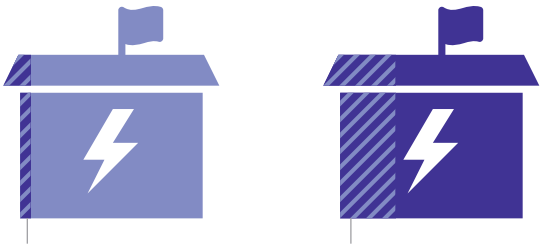
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ITC BASE RATES FOR ENERGY PROJECTS



if the energy property's output exceeds 1 MW (AC), the base rate is **6%** of the upfront eligible costs

if the energy property's output is less than 1 MW (AC), the base rate is **30%** of the upfront eligible costs

BONUS INCENTIVES FOR ITCS

There are three types of bonus incentives that can stack on top of the base rate for an ITC that can raise the value of the tax credit to as high as 70% of the upfront costs of the energy property:

- Energy Community Bonus;
- Domestic Content Bonus; and
- Low-Income Community Bonus.

The Energy Community Bonus and the Domestic Content Bonus incentives are available by right to energy property that satisfies the criteria underlying each incentive. The Energy Community Bonus is a geographic-based incentive that is meant to incentivize bringing clean energy to areas historically affected by the fossil fuel industry.

The Domestic Content Bonus is a source-based incentive that requires certain thresholds of the costs of the energy property to have been produced domestically, which the government hopes will quickly grow the domestic supply chain.

The Low-Income Community Bonus is the only bonus incentive for the ITC that is not available to energy property by right. Each year there is a specific amount of power allocated to energy projects that satisfies one of four types of community development projects underlying the Low-Income Community Bonus.

COMMERCIAL CLEAN VEHICLES

The IRA includes tax credits to assist school districts that wish to transition to clean energy or hybrid vehicles. School districts should consider this incentive if they are expanding and need more transportation, are looking to improve their current transportation system, or are looking to decrease their carbon footprint. Similar to an ITC, school districts can receive a dollar-for-dollar cash payment in lieu of the tax credit for the purchase of qualified commercial clean vehicles.

Buses, transport vans, and commercial grade lawnmowers are just a few examples of the types of clean commercial vehicles included under this tax credit. Vehicles that satisfy the underlying criteria and weigh less than 14,000 pounds are eligible to receive the value of the tax credit as a direct cash payment in an amount of up to $7,500, while vehicles that satisfy the underlying criteria and weigh greater than 14,000 pounds are eligible to receive a cash payment of up to $40,000.

TAX CREDIT FOR COMMERCIAL CLEAN VEHICLES



ALTERNATIVE FUEL VEHICLE REFUELING PROPERTY (I.E. CHARGING STATIONS)

If your school district purchases any hybrid or clean energy powered vehicle, you will also need to install charging stations. Similar to an ITC, the base rate of the tax credit is 6% of the eligible upfront costs to install a charging station. If certain prevailing wage and apprenticeship requirements are met during the installation of the charging station, it is possible to increase the base rate by as much as five times to 30% of the upfront eligible costs.

Under the IRA, school districts can elect to receive cash payments in lieu of the tax credits for installing charging stations in low-income or non-urban areas.

Low-income areas are determined in the same manner as the New Market Tax Credit. Non-urban areas consist of those areas that are not considered by the Census Bureau to be urban areas based upon the 2020 census data. Alternative fuels include, but are not limited to, electricity, ethanol, natural gas, hydrogen, and biodiesel.

Your head might be spinning over the many options your school district has to save money on clean energy projects. If you're feeling overwhelmed, that is normal, but know that there are even more incentives under the IRA that you can take advantage of to save your district money than those mentioned here. Over the next few months, there will be a series of follow-up articles posted in OASBO's *eNews* that dive a little more deeply into each of the various incentives that school districts should consider before embarking on their clean energy ventures. – JOHN FLIS / Bricker Graydon LLP