

# WASBO

## **Inflation Reduction Act (IRA): What school business officials need to know**

**Presenters: David Erdman, Managing Director  
Matt Bubness, Director**

OVERVIEW

# **Baker Tilly Municipal Advisors (BTMA)**

# Baker Tilly

Baker Tilly was built on an understanding that our business demands absolute integrity, a belief in the value of trusted relationships, and a willingness to collaborate with every client. We provide a wide range of **public finance**, **accounting**, **tax**, **assurance** and **consulting services** with **industry-focused teams**.



**90+**  
years in business



**6,500+**  
team members



**40,000**  
clients



**74+**  
offices across the  
U.S.

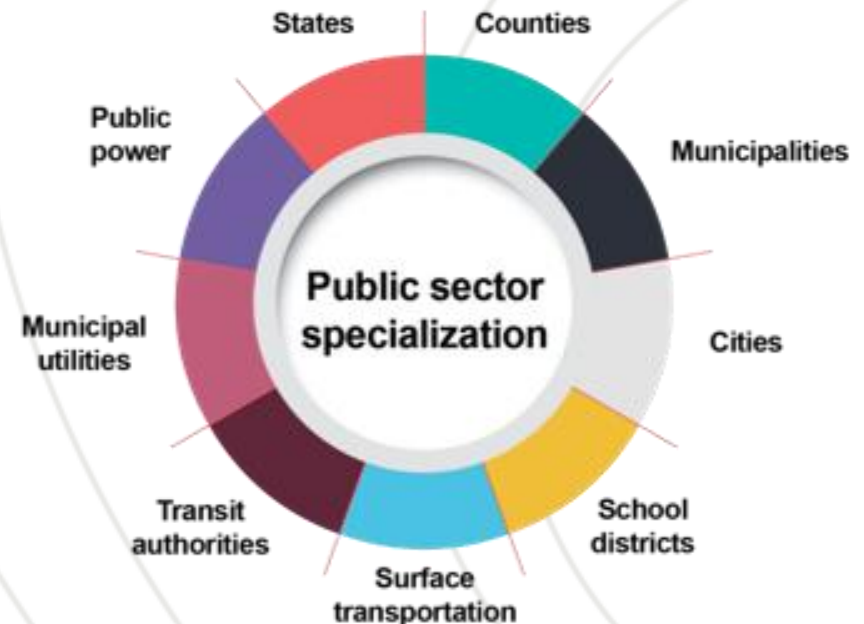


## Baker Tilly public sector

State/local government and school districts involve complex, unique environments shaped by fiscal, regulatory and operational considerations not found in other industries. Recognizing this complexity and eager to serve as a true **Value Architect**™ to the public sector, Baker Tilly formalized its dedicated public sector specialization with 90+ years of experience.

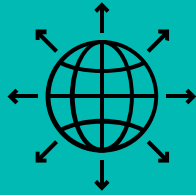
**4,200+** Government clients

**525+** Public sector practice members



BY THE NUMBERS

# Baker Tilly Municipal Advisors



**90+**

Municipal Advisors



**#4**

Ranked by number  
of issues\*



nearly

**400**

Average bond  
issues annually

*\*Source: Thomson Reuters  
municipal advisor rankings;  
2022*

OVERVIEW

# **Inflation Reduction Act (IRA)**



# First – context

- Inflationary pressures persist
- Even with some easing of increases from this fall – January figures show a 0.5% increase over prior month
- Prices in January 2023 are 6.4% higher than in January 2022
  - Particularly in food and energy costs
  - More crucial than ever to have well-developed financial forecasts/projections with inflation and approaching the end of ESSER
- See a recent Baker Tilly article on inflationary and labor pressures districts are facing
  - <https://www.bakertilly.com/insights/inflation-and-the-labor-market--interconnected-and>



**LEARN  
MORE**

# Inflation Reduction Act

Referred to as “Act” or IRA



**Aug. 16, 2022  
signed into law**



**728  
pages**



**\$738 billion  
in funding**



**\$499 billion  
in new spending  
and tax cuts**

Note: Per the Congressional Budget Office – September 7, 2022



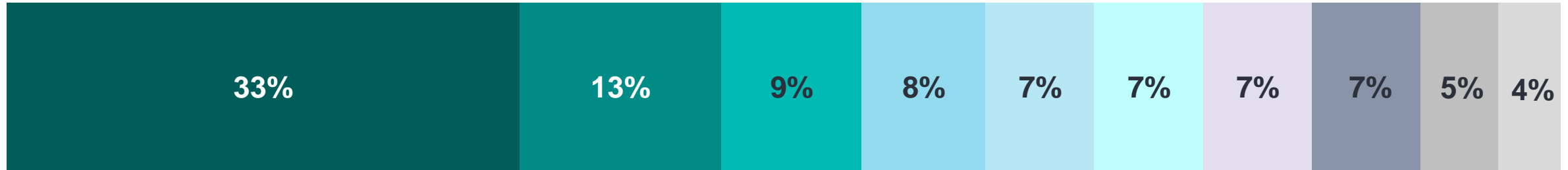


## Act summary

- Prescription drug price controls; extension of funding for Affordable Care Act
- Extension of energy credits/climate programs
- New funding and extension of commercial and residential energy programs
- Now direct tax credits/payments to tax-exempt entities
- Additional credits for environmental justice/low-income areas
- Funded by increase in corporate taxes; new tax on AMT on certain corporations resulting in new tax discussion in Official Statements.



# Breakdown of \$499B in available funding



- 33% — Clean Electricity Tax Credits
- 13% — Extension of Expanded ACA Subsidies
- 9% — Par D Re-Design, LIS Subsidies, Vaccine Coverage, Insulin
- 8% — Air Pollution, Hazardous Materials, Transportation and Infrastructure
- 7% — Individual Clean Energy Incentives
- 7% — Clean manufacturing Tax Credits
- 7% — Clean Fuel and Vehicle Tax Credits
- 7% — Conservation, Rural Development, Forestry
- 5% — Building Efficiency, Electrification, Transmission, Industrial, DOE Grants and loans
- 4% — Other Energy and Climate Spending

Note: Per the Congressional Budget Office – September 7, 2022



# Relevant IRA 2022 loans and grant funding

**\$44 billion in grant & loan funding for public sector**

...for qualifying clean energy and carbon reducing projects

<b>\$1 billion</b> RD funding for electric loans for renewable energy	<b>\$9.7 billion</b> USDA assistance for rural electric cooperatives	<b>\$1 billion</b> State, local, tribal and NFPs for zero building energy code adoption	<b>\$2 billion</b> Electric transmission facilities financing
<b>\$760 million</b> Siting of interstate electricity transmission lines	<b>\$1 Billion</b> SLG grants and rebates to replace vehicles with zero emission vehicles	<b>\$2.6 billion</b> Climate resistance for coastal communities	<b>\$3 billion</b> Reduce air pollution in ports
<b>\$7 billion</b> Greenhouse gas reduction fund	<b>\$250 million</b> Develop greenhouse gas reduction plans	<b>\$4.75 billion</b> Implement greenhouse gas reduction plans	<b>\$3 billion</b> Environmental justice block grants to reduce pollution
<b>\$3.155 billion</b> Neighborhood access and equity grant	<b>\$550 million</b> Bureau of reclamation domestic water supply projects	<b>\$4 billion</b> Drought mitigation projects in reclamation states	<b>\$411.5 million</b> Tribal & Hawaiian climate resilience

## What is meant by “tax credit”?

The Act provides for a direct offset to tax liability in the form of a tax credit.

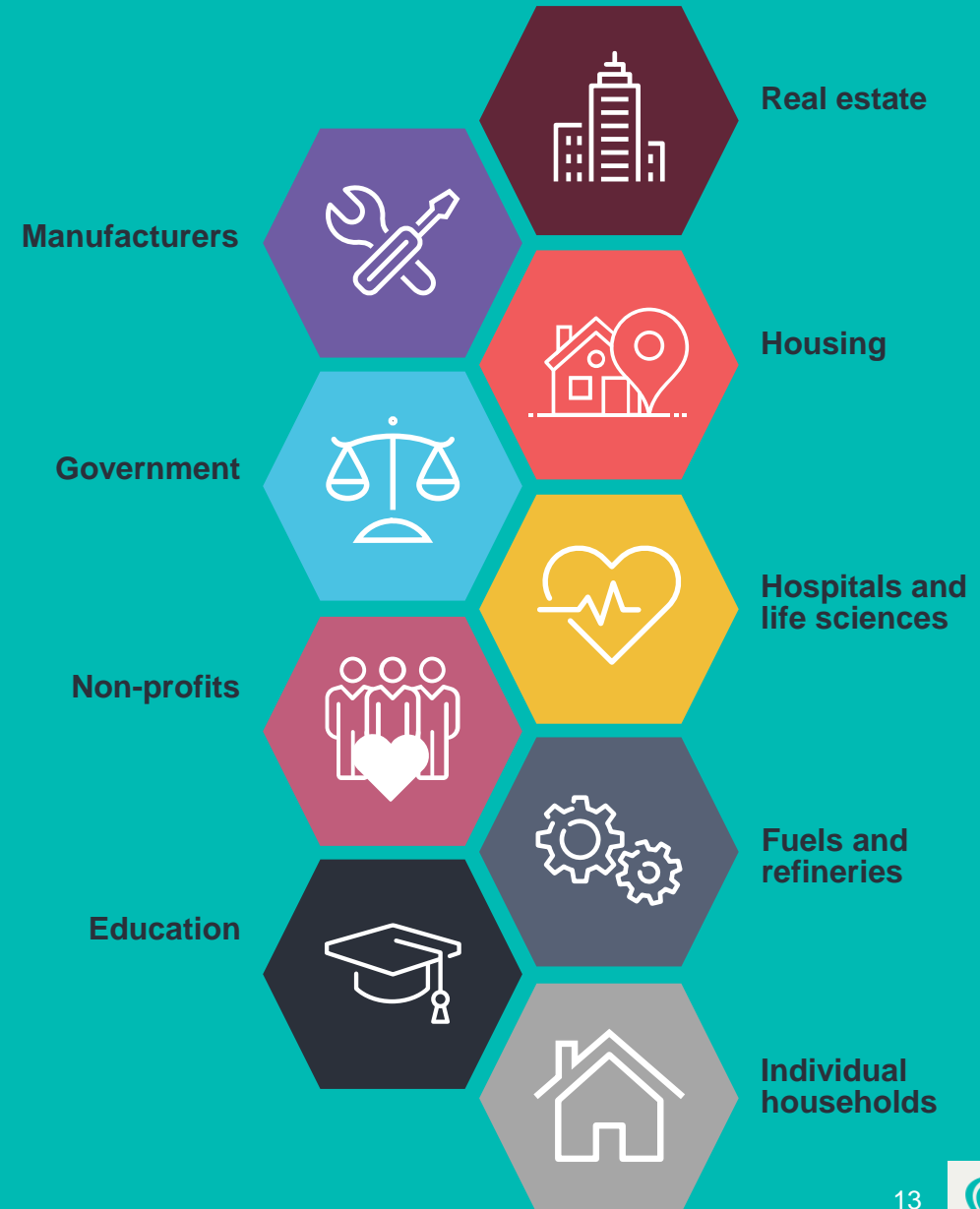
- Owner(s) can simply use the tax credit against their own tax liability
- If owner(s) don't have tax liability or taxable income, they can now sell the credit to another taxpayer (“Transferability”)
- Tax-exempt owners can receive a “direct payment” in the form of cash payment from the IRS, these include state and local governments, non-profits, Tribes and others (“Direct Pay”). Also applies to taxable owners for certain technologies.

Essentially, the Act is enabling ALL entities to utilize this legislation regardless of tax status.



# Eligible entities for “qualifying energy projects” tax credits

- Cities, towns, counties, municipal utilities, and schools are eligible for clean energy tax credits.
- File for a direct pay tax credit from the federal government to the tax-exempt entity for qualifying clean energy projects.
  - Tax credit not available until project placed into service
  - Reduced local funding and direct costs



# How big is the “energy” piece of the Act?

Existing credits with enhanced features:

**Wind, solar,  
hydro**

**Biomass,  
trash, CHP,  
geothermal**

**Carbon  
capture**

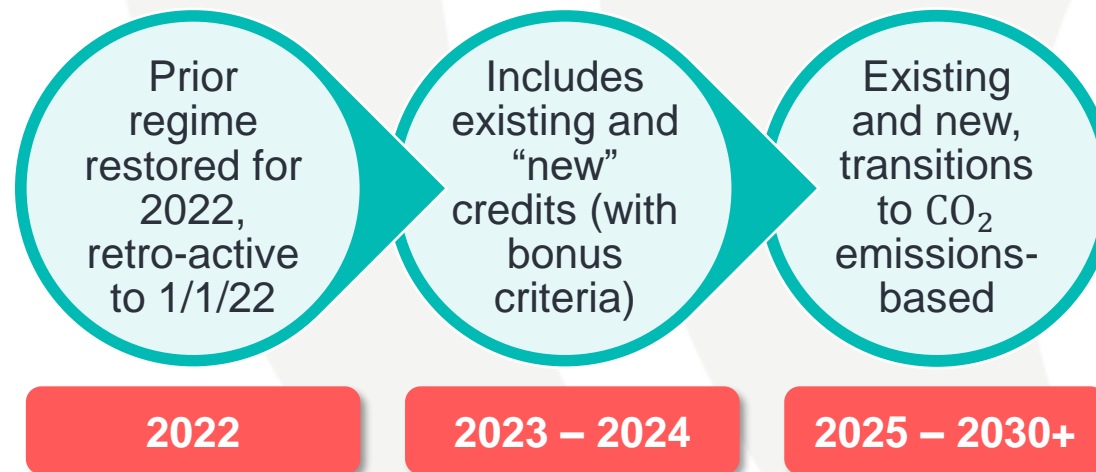
**Biodiesel**

**Renewable  
fuels**

# Inflation Reduction Act

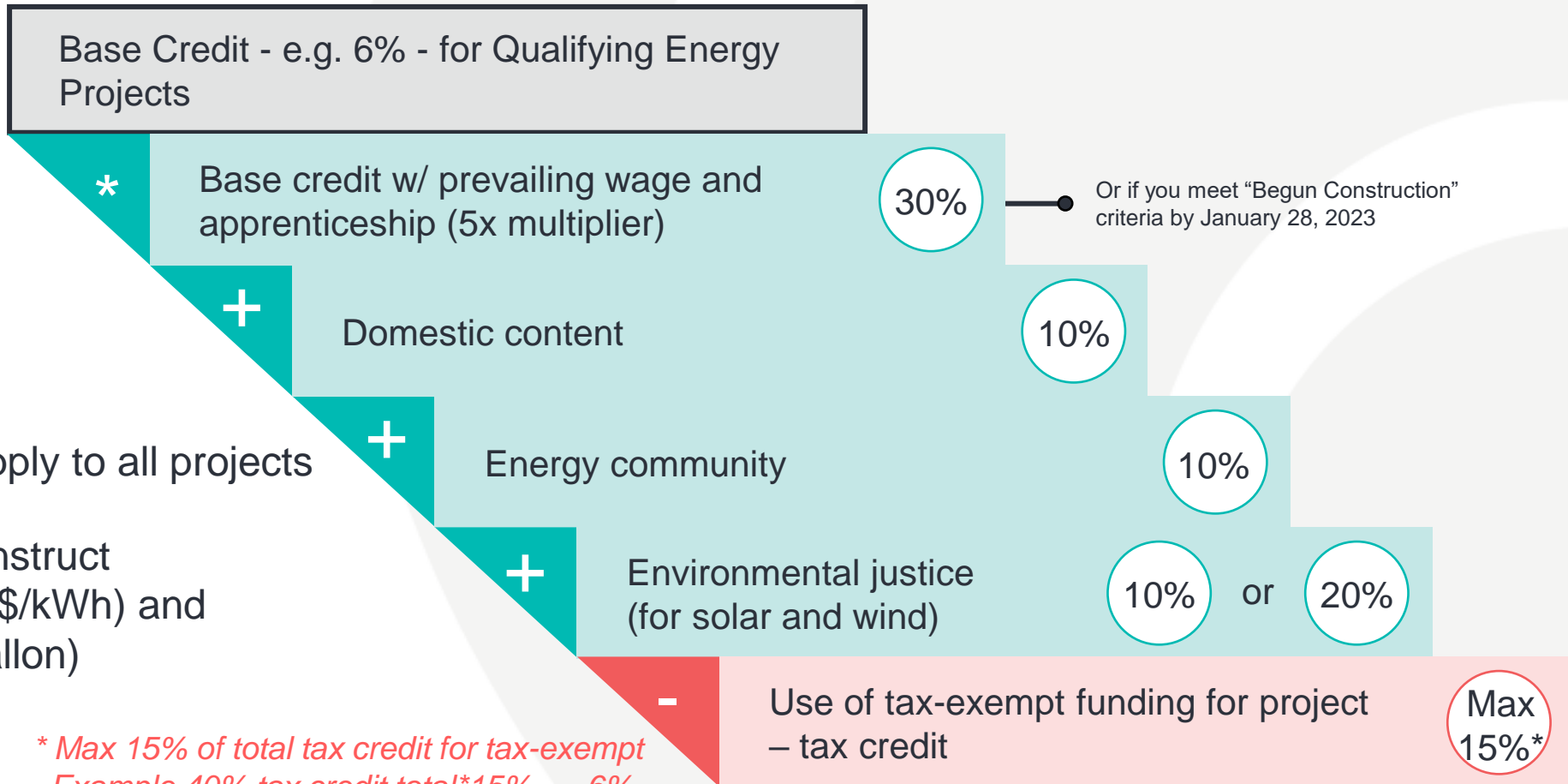
- Over 70 separate tax credits in IRA
- All but a few of these credits are entitlement credits, meaning if your project meets specific criteria you are entitled to the tax credit
- Most credits are effectively good through 2032
  - The longest U.S. “energy policy” timeframe ever

Timeline summary:



# Direct pay tax credits

“Base Credit” + “Bonus Criteria” is the overriding theme of the new credit regime



➤ Not all credits apply to all projects

➤ Same bonus construct applies to PTC (\$/kWh) and clean fuels (\$/gallon)

*\* Max 15% of total tax credit for tax-exempt  
Example 40% tax credit total\*15% = - 6%*





## Tax credits/public sector

- Some projects (renewable projects as one example) may qualify for investment tax credits (ITC) and production tax credits (PTC)
  - ✓ ITC is one-time credit based on qualifying costs while PTC is annual credit based on amount of energy produced and other factors. Entities can only take one credit – requires analysis to determine risks, options, and optimal credit for entity
- Local governments (including school districts) that have current potentially qualifying projects should review “Begun Construction” requirements to maximize the credits Projects must be placed into service after 2022
- Direct pay tax credits; sound similar to subsidy payments due governments for Build America Bonds issued around 2009-10
  - ✓ Act addresses most sequestration concerns

## Current examples of projects

- Electric bus charging stations
  - Electric buses themselves may not qualify
- Solar field construction
- Geothermal
- Combined heat and power



## **More specific provisions for school districts**

- Direct Payments For Tax-exempt Renewable Energy Projects
- Section 179D Efficient Commercial Buildings Tax Deduction
- Qualified Commercial Clean Vehicle Tax Credit
- Alternative Fuel Refueling Property Credit

# Section 179D efficient commercial buildings tax deduction

- Districts cannot directly utilize the deduction, however contractors or other entities responsible for the design or upgrade can claim it
- By working closely with contractors/engineers – districts may be able to share in benefits of deductions and reduce overall project costs for non-renewable energy projects
- Types of projects that may qualify include:
  - Equipment insulation
  - Water heaters
  - Lighting
  - Lighting controls/sensors
  - Chillers
  - Furnaces
  - Boilers
  - Heat pumps
  - Air conditioners
  - Caulking/weather-stripping
  - Duct/air sealing
  - Building insulation
  - Windows
  - Siding
  - Roofs
  - Comprehensive measures/whole building
  - Other EE
  - Tankless water heater

# Qualified commercial clean vehicle tax credit

- Tax credits as direct payments for the purchase of clean commercial vehicles
- Available to tax-exempt entities for up to 30% of the cost of qualified commercial clean vehicles placed in service before 2033
- Limits of credit:
  - \$7,500 for vehicles with a gross weight of less than 14,000 pounds (food service, maintenance, or other district-owned vehicles)
  - \$40,000 limit for vehicles at or above that weight (school buses)

## Alternative fuel refueling property credit

- Partnership with community or other entities within community
- For low-income or rural areas
- Offset up to 30% of the cost of each item of refueling property (i.e., each charger) for a maximum credit of \$100,000
- Other related potential opportunities:
  - Establishing 'Green Banks' through the Greenhouse Gas Reduction Fund
  - Environmental and Climate Justice Block Grants for disadvantaged communities



## Additional considerations

- Understand budgetary impacts of any projects as well:
  - Operating cost impacts – scheduled maintenance, reduced fuel costs, etc.
  - Future capital cost impacts – Comparable useful life?  
Replacement cost?

# Municipal advisor services

- Baker Tilly can be a partner to help support your IRA project needs in a variety of ways:
  - Providing technical expertise to help in-house teams understand the credits and potential steps to take
  - Developing a strategy to leverage IRA opportunities for loans, grants and tax incentives; identifying the estimated IRA tax credit amount.
  - Helping ensure compliance with grant requirements during construction
  - Advising on how IRA credits align with other aspects of an organization's capital plan
  - Gather documents needed for, and prepare actual IRA tax credit form for filing

[Inflation Reduction Act resource center - Baker Tilly](#)





# Recommended actions

- Evaluate your project landscape for projects that involve energy efficiency, renewable energy, or other eligible components under the Act – prior, current or future projects.
- Understand the value of direct pay tax credits now that they are available to the public sector; increasing grant revenue. Understand the timing for receipt of tax credits.
- If applicable, understand what “begun construction” means in practice and any complications for projects “placed into service” prior to 1/1/2023.
- Work with a municipal advisor to create funding strategy – both related to the financing of the project and ESG-related considerations.

# Thank you!

## Connect with us

**David Erdman**  
**MANAGING DIRECTOR**

**P: +1 (608) 240-2516**  
**E: david.erdman@bakertilly.com**



**Matt Bubness**  
**DIRECTOR**

**P: +1 (312) 228-73360**  
**E: matt.bubness@bakertilly.com**

 [bakertilly.com/MunicipalAdvisory](https://bakertilly.com/MunicipalAdvisory)

# Disclosure

The information provided here is of a general nature and is not intended to address the specific circumstances of any individual or entity. In specific circumstances, the services of a professional should be sought. Tax information, if any, contained in this communication was not intended or written to be used by any person for the purpose of avoiding penalties, nor should such information be construed as an opinion upon which any person may rely. The intended recipients of this communication and any attachments are not subject to any limitation on the disclosure of the tax treatment or tax structure of any transaction or matter that is the subject of this communication and any attachments.

Baker Tilly Municipal Advisors, LLC is a registered municipal advisor and controlled subsidiary of Baker Tilly US, LLP, an accounting firm. Baker Tilly US, LLP trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

© 2023 Baker Tilly US, LLP

