



TO: Yi-An Huang, City Manager

FROM: Kathy Watkins, Commissioner of Public Works

Iram Farooq, Assistant City Manager for Community Development

DATE: March 25, 2024

SUBJECT: **Response to Policy Order #3, adopted January 22, 2024**
That the City Manager be and hereby is requested to confer with relevant City departments on potential public renewable energy projects that could receive funding through the IRA Direct Pay provision

The City, along with many other local and state governments, has eagerly watched the rollout of significant federal funds associated with the Inflation Reduction Act (IRA), the Bipartisan Infrastructure Law (BIL) and other recent federal actions. The following is a chronology of City actions, an assessment of these opportunities and upcoming plans.

Description of Direct Pay

In effect through 2032, the Federal Inflation Reduction Act makes tax credits available for the first time directly to tax exempt organizations such as local governments and non-profit organizations. The credits are provided for clean energy projects such as ground source and geothermal heat pumps, microgrids, solar and other renewable energy systems, electric vehicles and electric vehicle charging infrastructure.

Organizations must pre-register for tax credits for a project the year the project will be put into operation. Once the project is placed in operation, the organization will then file a form and the IRS will send a direct payment for all costs deemed to be eligible.

Depending on the start date and project size, the credits could range from 6% - 70% of costs. There are either minimum requirements or bonus points given based on:

- Payment of Federal Prevailing Wage
- Percentage of construction workers and hours worked by members of registered Apprenticeship programs
- Domestic Content of materials
- Location of the project in an Environmental Justice or Low-Income Community census block

Note that there is a 15% reduction in tax credit amounts for projects already funded by tax-exempt bonds.

City Engagement

- City staff from multiple departments, including DPW, CDD, CBP, Auditing, Finance and Purchasing have been aware and discussing the programs since early 2023.
- Staff have viewed multiple webinars – by organizations such as World Resources Institute (WRI), MAPC, the Boston Green Ribbon Commission, Power Options. In addition, a new Commonwealth of Massachusetts agency, the Federal Funds Infrastructure Office, has been holding monthly meetings that staff regularly attend.
- Staff have a call scheduled with the Congressional Progressive Caucus Center to learn more about Direct Pay and other IRA opportunities.
- Staff have served as a beta tester for World Resources Institute's (WRI's) IRA Bonus Mapper, which identifies census blocks that are eligible for Justice 40, Low Income Communities Bonus Credit and Energy Communities, which provide additional bonus points for direct pay and other federal IRA/BIL funding assistance. This has been widely distributed and is one of the resources provided by the Congressional Progressive Caucus Center. [IRA Bonus Mapper \(Beta\) \(wri.github.io\)](https://wri.github.io/IRA-Bonus-Mapper/)

Based on this work, staff have determined that **Cambridge is well-positioned to access these opportunities:**

- The opportunities align with the City's existing Net Zero Action Plan, BEUDO and Clean Fleet initiatives.
- City departments already engage in extensive interdepartmental collaboration, which is necessary to assure success.
- The City has existing relationships with knowledgeable, expert consultants for design, professional services and construction.

Actions Underway – Municipal Projects

The City has engaged an energy and engineering firm with expertise in Direct Pay. The initial focus is on construction projects that are currently underway and are time-sensitive for applying for tax credits and ensuring relevant information is available when needed. These projects are the DPW Simard Building renovations, which is scheduled to be completed in late spring 2024, and Fire Headquarters renovations, for which initial demolition/construction began in 2022 and 2023.

This assessment will provide an analysis of the tax credits that we are eligible for, the estimated value of the credits, any challenges in documenting costs and recommendations for procedures for upcoming projects.

While we are very excited to embrace these opportunities over the next eight years, it's important to note that both the application and reporting processes are challenging and must be weighed against the expected financial benefit for each project. The roll-out is being handled by the IRS and like most tax programs, the requirements are detailed, complex and require an incredible level of recordkeeping and documentation. As an example, the IRS recently released a User Manual describing the mandatory process for pre-registering a project. This pre-registration user manual alone was 70 pages.

Nevertheless, we are moving forward in continuing to learn about and assess the opportunities.

Upcoming Actions

The City will continue to learn the best practices and procedures for developing, bidding, documenting and applying for the IRA tax credits. Some of the topics we will explore over the next year are:

- **Clean Energy, EV and Clean Fuels Infrastructure Credits**

The tax credits advance both a sustainable future and good construction jobs for workers in the new economy. Federal prevailing wage requirements apply for large (greater than 1 megawatt (MW)) clean energy projects that began construction on or after January 29, 2023, and for EV charging and clean fuels infrastructure projects regardless of size. Tax credit “bonuses” are available for projects that meet minimum percentages of hours worked by apprentices in Registered Apprentice programs. Massachusetts law already requires public entities to pay union-level wages, referred to as State Prevailing Wages for all publicly funded projects. We are investigating the comparison between state and federal prevailing wages in order to better understand project impacts. In addition, we are working with general contractors on existing projects to better understand the apprenticeship levels in existing contracts and to understand the requirements for upcoming contracts.

- **Weatherization and Energy Efficiency Credits** - The incentives pathway for weatherization or efficiency projects would be the 179D credit. However, this credit is not available as direct pay in the same way that the investment tax credit is. Tax exempt organizations like the City are able to assign the credit to the project designer, giving the City some leverage when establishing project budgets with designers.
- **Clean Transportation Tax Credits** – Direct Pay provides up to \$40,000 for electric vehicles. We are exploring the direct pay or point of sale mechanisms and how they interact with existing state incentive programs.

Actions Underway – Community Engagement

Direct pay is also available to other tax-exempt organizations, including nonprofits, houses of worship, and other 501(c)3s. Homeowners’ and condominium associations exempt under section 528 are also eligible for direct pay. As with municipal buildings, typical projects at nonprofits that direct pay could support include solar, microgrids, geothermal, and EVs.

City staff will be working to share information about the direct pay opportunity through several of our climate programs. First, through our community resiliency microgrid initiative we have been working with nonprofits and houses of worship to explore opportunities for solar PV installations with battery storage. Access to direct pay could help make these projects more financially attractive to resource-constrained organizations. The City’s project partner can also engage additional nonprofits with information about direct pay.

In addition, the Electrify Cambridge program is providing technical guidance on decarbonization projects to residents, including condo associations. This no-cost consultation includes an overview of incentives and tax credits, and the Electrify Cambridge advisors will be incorporating information about direct pay so that a condo association can utilize the option for its project, if eligible. The Cambridge BlocPower financing pilot for multifamily buildings similarly helps properties access all eligible incentives.

City staff will also plan specific communication and outreach to nonprofit building owners in Cambridge to ensure they are aware of this new option. This outreach will include information on other state and utility incentives as well, and information on how to get started on exploring solar and other clean energy possibilities.

Finally, the City has communicated with affordable housing providers about the Direct Pay option and will continue to be available to assist them with assessing and accessing this resource as appropriate. Affordable housing providers are already using the Investment Tax Credit to pursue similar work.

We look forward to continuing this work.