Higher Education and Not-for-Profit

Inflation Reduction Act: Implications for Higher Education and Not-For-Profits

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Overview of the Inflation Reduction Act

The Inflation Reduction Act of 2022 (the "IRA") was signed into law on August 16, 2022. While the IRA may not materially reduce inflation in the near term, it does include a number of important spending provisions from President Biden's Build Back Better agenda. The new programs and spending are aimed at advancing and transforming aspects of certain sectors, principally energy and to a smaller extent healthcare.

The law is expected to have wide-reaching impacts across the economy; moreover, for institutions such as colleges, universities, and not-for-profits, the spending provisions within the IRA offer the opportunity to receive significant subsidies for projects that incorporate clean energy goals. For these institutions, the new government spending offers a unique opportunity to meet an institution's goals, receive subsidies for planned or new projects, and diversify the revenue streams used to fund capital projects.

Selected IRA Spending Programs

	Program	Description	Aggregate Spending
Healthcare	Affordable Care Act subsidy extension	▪ Extension of Affordable Care Act enhanced subsidies (passed under the Covid-19 driven American Rescue Plan Act)	+$64 billion
	Medicare Part D modifications	▪ Out-of-pocket insulin cost capped at $35/month ▪ No cost-sharing on certain adult vaccines ▪ Out-of-pocket drug costs cap ▪ Enhancement of low-income subsidy program	+$44 billion
Energy and Climate	Consumer energy cost credits and grants	▪ $9bn home energy rebate program ▪ $1bn energy efficiency grants for affordable housing ▪ Tax credits for new and used clean energy vehicles ▪ Tax credits for home energy efficiency investments	+$369 billion in total climate and energy investments
	Energy security and domestic manufacturing	▪ $30bn production tax credits for solar, wind, renewables ▪ $20bn loan program for clean vehicle manufacturing facilities ▪ $10bn tax credit for clean technology manufacturing facilities	
	Carbon emissions reductions	▪ $30bn grant/loan program to advance clean electricity production ▪ $27bn for a clean energy technology accelerator ▪ Credits/grants for clean fuels and clean commercial vehicles	
	Rural, impoverished, and agricultural clean energy	▪ $60bn in grants/loan programs for environmental justice priorities ▪ $20bn for climate-friendly agricultural practices ▪ Credits/grants to support biofuels	

Source: Committee for a Responsible Federal Budget, U.S. Senate Democrats, White House, and HilltopSecurities.

Please see disclosure starting on page 6.

The IRA's spending provisions include an estimated $110 billion for healthcare – comprised of $64 billion in Affordable Care Act subsidies and $44 billion in Medicare enhancements – and almost $370 billion for clean energy and climate investments. Further, the IRA contains revenue-generating provisions aimed at reducing the federal deficit, including a 15% corporate minimum tax, additional funds for IRS tax enforcement, reforms of carried interest provisions, and certain new fees.

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College, University, and Not-For-Profit Mission Alignment

Institutions have placed increasing emphasis on the environmental impact of their operations amid elevated societal awareness of the impacts of climate change, a desire to align operations to mission (in particular, for institutions with a focus on environment and sustainability), and pressure from constituents, including newer generations of students.

The mechanisms institutions have used to align their operations with sustainability goals include enhanced academic programming in allied fields, development of sustainability programming, research into climate change and environmental topics and, in some cases, financial measures, such as endowment divestment and sustainable business practices.

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Inflation Reduction Act Programs for Colleges, Universities, and Not-For-Profits

Institutions will find a few provisions in the IRA particularly helpful as they undertake projects. Importantly, spending in the IRA is in large part through the tax code – tax credits and deductions – though there are also grant programs available. The IRA makes available a mechanism called "direct pay" (sometimes known as "elective pay") to provide funding to higher education and other not-for-profit institutions that generally do not bear tax liabilities. Under the direct pay provisions, institutions incur costs associated with projects and upon the filing and processing of their tax return on Form 990, receive a cash payment from the Internal Revenue Service for what would otherwise be the amount of the tax credit. This process means institutions may face up to a ~12 month lag between incurring project costs and receiving funding.

Programs for Colleges, Universities, and Not-for-Profits

Spending Program	▪ Clean energy facilities and production capacity	▪ Clean energy vehicles	▪ Clean energy charging stations	▪ Building renovation/retrofits
Example Projects	▪ Solar panels ▪ Wind farms	▪ Electric vehicles ▪ Electric buses	▪ Electric vehicle charging stations	▪ HVAC ▪ Lighting ▪ Building envelope
Max Credit	▪ 60% of project cost	▪ Cars/vans: $7,500 ▪ Buses: $40,000	▪ $100,000 per project	▪ $5.00 per square foot
Payment Mechanism	▪ Direct pay	▪ Direct pay	▪ Direct pay	▪ Tax deduction for contractor (pass-through of savings)
PW&A Bonus	✓	✓	✓	✓

Source: HilltopSecurities.

Clean Energy Investment/Installation or Clean Energy Production Capacity

Institutions can access funding for installing clean energy systems (Investment Tax Credit) or for producing clean energy (Production Tax Credit).

Institutions can access funding for installing clean energy systems (Investment Tax Credit) or for producing clean energy (Production Tax Credit). They can claim either funding source but not both. Larger clean energy projects are most advantaged by claiming Production Tax Credits while smaller projects are likely to find the economics of the Investment Tax Credit more favorable. Eligible projects include a variety of clean energy sources including the often used solar, wind, and geothermal. Credits are funded as a percentage of project cost or per kWh of production and structured as base credits with "bonuses" available for projects meeting specific criteria. A project's available IRA subsidy will vary with its specifications, but the following charts provide a generalized sense of the available subsidy. Importantly, for both types of credits, projects above 1MW have wage and apprenticeship requirements for the full base credit to be granted. Additionally, institutions that use tax-exempt financing on a clean energy project are subject to a reduction in the final credit for the portion financed with tax-exempt debt, capped at a maximum 15% reduction of the final credit.

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Available Subsidies by Energy Source/Solution

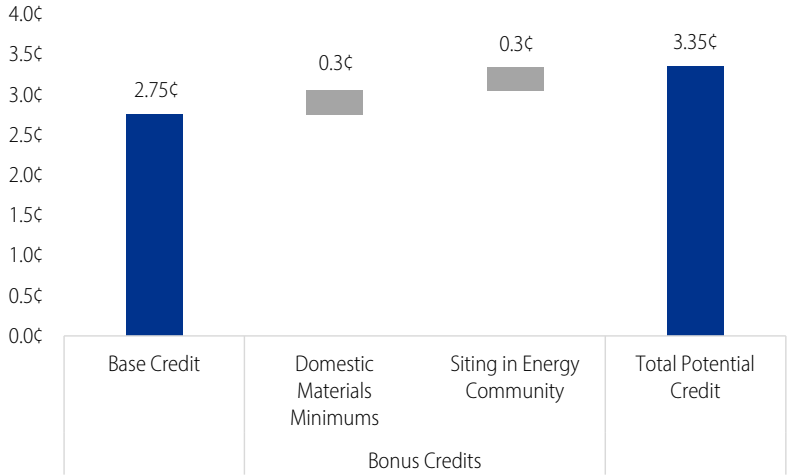
Investment Tax Credit (ITC)	Production Tax Credit (PTC)	ITC and PTC
Energy Storage	Biomass	Solar
Fuel Cells	Landfill Gas	Wind
Microturbines	Hydroelectric	Geothermal
Interconnection	Marine/Hydrokinetic	Tidal
Microgrid Controllers		Municipal Solid Waste

Source: U.S. EPA, NC Clean Energy Technology Center, and HilltopSecurities.

Investment Tax Credit: % of Project Cost

Source: U.S. EPA, NC Clean Energy Technology Center, and HilltopSecurities.

Production Tax Credit: Per kWh



Source: U.S. EPA, NC Clean Energy Technology Center, and HilltopSecurities.

Clean Energy Vehicle Purchases

Higher education institutions and not-for-profits can qualify for credits when acquiring clean energy vehicles.

Higher education institutions and not-for-profits can qualify for credits when acquiring clean energy vehicles. The credits are subject to a cap for each vehicle, but with no limit on the number of times an institution can claim this credit. Vehicles qualifying for this credit include certain Plug-In Hybrid Electric Vehicles (HEVs), Plug-In Electric Vehicles (PEVs) and Fuel Cell Electric Vehicles (FCEVs). The credit is bifurcated based on the Gross Vehicle Weight Rating (GVWR).

Clean Energy Vehicle Subsidies

	< 14,000 Pounds GVWR	> 14,000 Pounds GVWR
Example Vehicles	▪ Facilities, parking, public safety, student transport vehicles	▪ Buses
Credit Formula	Lesser of: ▪ 15% of vehicle cost (30% if not powered by gas or diesel) ▪ The incremental cost relative to a comparable vehicle	Lesser of: ▪ 15% of vehicle cost (30% if not powered by gas or diesel) ▪ The incremental cost relative to a comparable vehicle
Maximum Credit	▪ $7,500	▪$40,000

Source: Internal Revenue Service and HilltopSecurities.

Alternative Fuel Refueling Stations

Institutions are eligible for subsidies for clean energy refueling stations under an IRA provision.

Institutions are eligible for subsidies for clean energy refueling stations under an IRA provision. This subsidy has specific geographic requirements for qualification. Subsidies are available for institutions or organizations located in low-income or non-urban census tracts only. Specifically, the census tract must:

- Not be an urban area (generally, <2,000 housing units or <5,000 people); or
- The poverty rate in the census tract must be ≥ 20%; or
- The census tract must be an area where the median family income is ≤ 80% of the state median family income level.

Refueling stations and equipment for natural gas, propane, hydrogen, electricity, E85, or diesel fuel blends containing a minimum of 20% biodiesel are eligible. The credit is structured as 30% of the project cost and subject to a $100,000 maximum per project for projects meeting wage and apprenticeship requirements (if wage and apprenticeship requirements are not met the credit is 6% of cost).

Energy Efficiency Building Project Pass-Through Deduction

The energy efficiency deduction is a unique provision of the IRA that supports the ability of not-for-profits to engage in retrofits and building renovations.

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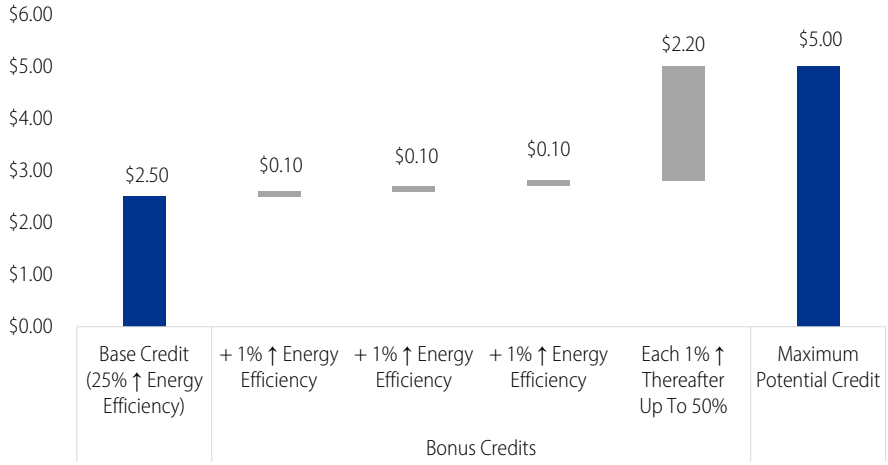
Energy Efficiency Project Deduction: Per SqFt



Source: Internal Revenue Service and HilltopSecurities.

Prevailing Wage & Apprenticeship Requirements

The Inflation Reduction Act provisions often confer additional subsidies for projects meeting Prevailing Wage & Apprenticeship Requirements. Prevailing wages are determined by the Department of Labor and set a minimum pay and benefits level for a geographic area while apprenticeship requirements ensure a percentage of total hours are performed by qualified apprentices. The enhanced credit and deduction for meeting wage and apprenticeship requirements is typically 5x the base credit.

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Conclusion

The IRA offers opportunities for colleges, universities, and not-for-profits to receive significant subsidies for climate and environment-friendly capital and construction projects. While these projects still require an immediate outlay – and there may be a lag between incurring project costs and receiving credits via the IRS – for institutions with planned projects or with a desire to engage in environment-friendly capital planning, the IRA offers an opportunity for significant reimbursement of incurred costs.