

Federal Government Will Reimburse Public or Non-Profit Hospitals up to 50% for Clean Energy Projects

The Inflation Reduction Act expanded the availability of clean energy tax credits so that tax-exempt entities like public and non-profit hospitals can receive “direct pay” (also known as “elective pay”). In simple terms, direct pay allows such entities to recoup a significant portion of a clean energy project’s cost as a tax-free cash payment from the U.S. Internal Revenue Service (IRS) for the taxable year in which the project

is placed in service. Historically, because these tax credits were used to reduce entities’ tax liability, tax-exempt entities like non-profit hospitals and local governments have not been able to take advantage of them. Now, thanks to the Inflation Reduction Act’s creation of direct pay, these entities can receive the full value of the tax credit as cash payment.

Benefits of Clean Energy Projects

- Realize enormous energy savings and redirect them to other budgetary needs
- Reduce carbon emissions meeting local and national climate goals
- Create a reliable energy grid for emergencies and back-up power
- Provide electric vehicle (EV) charging as a staff benefit

Relevant Projects Eligible for “Direct Pay” Tax Credits

- Solar
- Geothermal
- Battery storage
- EV charging



Up to 50% Reimbursement for Clean Energy Projects

Eligible projects can receive up to 30% of a clean energy project's cost as a base credit. The location of the project will determine if it qualifies for an energy communities bonus credit (worth an additional 10%) and/or a low-income communities bonus credit for solar or wind projects (also worth an additional 10%). "Energy communities" are defined as communities that have seen significant job loss in the fossil fuel economy; the closure of a coal mine or coal-fired power plant or are host to a brownfield site. Low-income communities are those

census tracts with a poverty rate of at least 20% or those that are located on federally recognized Tribal lands. Lastly, projects can qualify for a domestic content bonus credit if they procure materials—like solar panel components—that are made in the United States. This domestic content bonus is also worth 10% of project costs. Importantly, in order to qualify for direct pay, eligible projects over 1 MW must ensure they meet the domestic content standards.

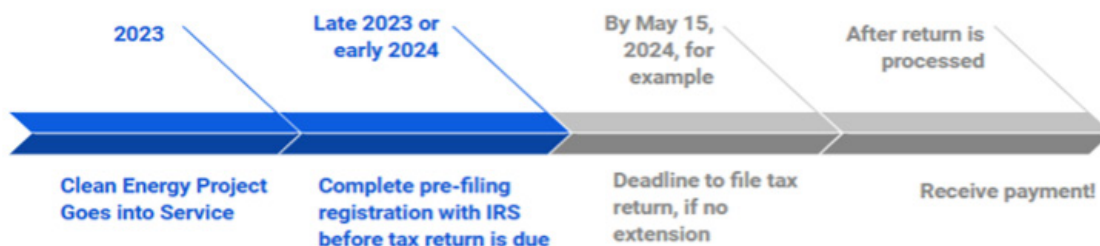
30% base credit + 10% qualifying community credit + 10% domestic content = 50%

Timing

Only once a clean energy project is complete and operational can a reimbursement be processed. Therefore, the expected timeline from construction, to completion, to reimbursement will likely span a year or more. For example, if a public hospital completes a clean energy project in 2023, it will receive the

payment after pre-registering the project, receiving a registration number for the project, and then electing on a 2023 tax return filed in 2024 to receive a cash payment (Figure 1). Essentially, the IRS will treat the amount of the credit as an overpayment of tax for which the entity is entitled to a refund.

Figure 1: Example Timeline — School Clean Energy Project Placed into Service in 2023



Case Study: Geothermal System in Wisconsin Hospital

Hospitals typically have a large carbon footprint and can realize huge savings from installing clean energy. For example, a rural, non-profit hospital in Wisconsin installed a geothermal HVAC system that saves the hospital \$15,000 a month in energy costs

and the system has paid for itself in just five years.¹ Such significant savings can be used as leverage to advocate for other pressing needs such as staff salary increases.

Next Steps

- 1. Build your support network:** Reach out to your state energy office, local sustainability office, and utility representative to learn about additional available funds, incentives, lessons learned, and technical expertise.
- 2. Identify other needs:** This may include efficient lighting, windows and doors, improved insulation, or updated HVAC as part of a holistic retrofit that will complement the clean energy project and will be eligible for additional funding streams such as:
 - › Green banks, Community Development Financial Institutions
 - › State energy programs and revolving funds
 - › Energy Savings Companies
- 3. Develop comprehensive upgrade plans:** In coordination with relevant stakeholders, create a comprehensive plan for upgrading hospital buildings that will meet the health needs of patients and staff, increase energy savings, and improve climate resilience while capitalizing on once-in-a-generation federal funding.
 - › Federal Grants: U.S. Department of Energy's Renew America's Nonprofits, The U.S. Federal Emergency Management Agency's Building Resilient Infrastructure in Communities.

Additional Resources

BlueGreen Alliance's [Direct Pay User Guide](#) for Schools and Nonprofits for more details on qualifying for clean energy project reimbursements.

BlueGreen Alliance's [Public Buildings Roadmap](#) for additional federal funding available for hospitals.

BlueGreen Alliance's [Domestic Content User Guide](#) on how to meet the requirements to qualify for direct pay.

Endnotes

1 County of Dane, Wisconsin, "Geothermal Pays Off for Innovative Edgerton Hospital". Available online: <https://daneclimateaction.org/climate-action-plan/CAP-Stories/Edgerton-Hospital>