

## Direct Pay: Supporting Decarbonization of Higher Ed Buildings

Through the Inflation Reduction Act of 2022, clean energy tax credits for technologies such as solar, geothermal and EV charging are now accessible to public colleges and universities and other tax-exempt entities. This is possible through what is known as direct pay, also known as elective pay, where public institutions and other tax-exempt entities can get reimbursed up to 50 percent for the cost of clean energy projects once projects are completed.

### What Is Direct Pay?

In simple terms, direct pay is a mechanism that lets tax-exempt entities, including public colleges and universities, recoup a significant portion of the cost of a clean energy project as a reimbursement from the IRS. Historically, it wasn't possible for public institutions and other tax-exempt entities to take advantage of clean energy tax credits. Now, thanks to the Inflation Reduction Act and the novel inclusion of direct pay, public (and other tax-exempt) colleges and universities can receive the full value of a clean energy tax credit as cash payment once a project is placed in service.

### What Qualifies for Direct Pay?

There are a total of 12 clean energy tax credits where direct pay is applicable. However, the clean energy tax credit likely most relevant to campus buildings is the Clean Electricity Investment Tax Credit (48E/48), while 30C for EV charging stations and 45W for EV fleets may also be relevant for campus.

- Solar panels (48E)
- Battery storage (48E)
- Thermal energy storage (48E)
- Geothermal heat pumps (48)
- EV charging stations (30C)
- EV fleets (45W)

**HVAC sidenote:** Recognizing that many public buildings are in need of HVAC replacements, it is worth noting that geothermal heat pump systems (also referred to as ground source heat pumps) can serve as replacements for traditional HVAC systems and can cut energy bills by up to 65 percent.<sup>i</sup> In addition, heat pumps can provide improved indoor air quality and better temperature control. For larger campuses, geothermal networks (also known as district energy networks) may also be a viable clean energy technology.

### The Payoffs

- Direct pay reimbursements can be reinvested back into the budget to help cover other expenses, such as operational, maintenance, capital and staffing costs.
- Additional money coming from annual energy savings from installing clean energy technologies can also be used toward any budgetary deficits.

- Improvements in indoor air quality and better indoor temperature control can reduce indoor contaminants, boosting student performance and reducing sick days.<sup>ii</sup>
- Clean and healthy building environments are key to employee satisfaction, well-being and retention.<sup>iii</sup>
- Buildings powered by renewable energy and battery storage can double as climate-resilient emergency shelters as we face more extreme weather due to climate change.
- Upgrading campus buildings will create good jobs and job training opportunities for our communities.
- Upgrading campus buildings can contribute to university and local climate goals.

## Recommended Next Steps

1. Build your support network: Reach out to your state energy office, state education agency, local sustainability office and/or local utility to learn about additional available funds, see local examples and get technical assistance.
2. Identify upfront financing: This may include state grant programs, utility rebates, state green banks, credit unions, community development finance institutions and energy service companies.

## Additional Resources

- BlueGreen Alliance: [Making Clean Energy Tax Credits Deliver for the Public](#)
- Second Nature: [Higher Ed and Climate Provisions in the Inflation Reduction Act](#)
- Lawyers for Good Government: [Clean Energy Tax Navigator](#)

## Additional Considerations

With the shifting priorities of a new administration, the clean energy tax credits may become a target. Here's what we know: Because these clean energy tax credits are the law of the land, any attempt to challenge these credits must be done by passing a new law through Congress and not through executive orders. To stay up to date on the continued availability of direct pay, go [here](#).

## For questions or to learn more about direct pay, contact:

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## Case study

The University of Minnesota System has internally coordinated with tax, finance, facilities, capital project and sustainability staff, plus an external adviser, to take advantage of several clean energy tax credits using direct pay. This includes the purchase of 20 electric vehicles for campus use (with an expected reimbursement of \$240,000) as well as electric charging stations, 600kW of solar arrays and a 300-ton geothermal system.

<sup>i</sup> [www.energy.gov/eere/articles/5-things-you-should-know-about-geothermal-heat-pumps](http://www.energy.gov/eere/articles/5-things-you-should-know-about-geothermal-heat-pumps)

<sup>ii</sup> [www.epa.gov/iaq-schools/how-does-indoor-air-quality-impact-student-health-and-academic-performance](http://www.epa.gov/iaq-schools/how-does-indoor-air-quality-impact-student-health-and-academic-performance)

<sup>iii</sup> [www.centerforgreenschools.org/about/green-school-buildings-better-for-teachers-students](http://www.centerforgreenschools.org/about/green-school-buildings-better-for-teachers-students)