

CASE STUDY



CITY OF FREDONIA, KANSAS

Type

Energy Conservation Lease Certificates of Participation, Series 2023

Amount

\$4,825,000

Tax-Exempt

2.0MW solar project

Expected to produce 4,800 MWh in its first year, equal to approximately 16% of the City's energy requirements.

The City expects to receive 60% of the cost of the project back in the form of direct payments in lieu of tax credits.

The recently passed Inflation Reduction Act (the Act) has changed the way municipalities and non-profit 501(c)(3) entities can structure and finance renewable energy projects.

Historically, development of renewable energy projects has been driven by federal and state incentives, including federal tax credits. As a result, most projects have been structured and financed through private ownership, at least for a period of time, in order to fully capture the benefit of these tax credits.



DIRECT PAYMENTS IN LIEU OF TAX CREDITS

The newly created provisions of the Act now permit municipalities and non-profit 501(c)(3) organizations to receive incentives through direct payments from the US Treasury in lieu of investment tax credits.



AMOUNT OF TAX CREDIT

For qualifying projects, the investment tax credit has a base rate of 6% of the applicable costs with an increased rate of 30% for projects meeting certain prevailing wage and apprenticeship requirements. In addition, the investment tax credit may be further increased for qualifying projects if certain requirements are met, up to 70%.



FINANCING WITH TAX-EXEMPT DEBT

Local governments and 501(c)(3) organizations can now finance these projects with tax-exempt debt and still be eligible for the direct payment in lieu of tax credits. The renewable energy project may be financed utilizing a variety of financing structures depending upon the type of project and the options available to the municipality or 501(c)(3) entity under state law, including revenue bonds, lease purchase obligations and general obligation bonds.

ELIGIBLE PROJECTS

- Solar
- Small wind energy
- Energy storage (batteries)
- Fiber-optic solar
- Waste energy recovery
- Biogas
- Fuel cells
- Combined heat and power
- Microgrid controllers
- Geothermal
- Heat pump