

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: August 27, 2024

CAO File No. 0220-06228-0000

Council File No. 22-0947

Council District: All

To: The Mayor
The City Council

From: Matthew W. Szabo, City Administrative Officer



Reference: Report from the Office of the City Administrative Officer dated February 22, 2023

Subject: **STATUS REPORT ON FEDERAL CLEAN ENERGY TAX CREDITS FROM THE INFLATION REDUCTION ACT**

RECOMMENDATIONS

That the City Council, subject to the approval of the Mayor:

1. Authorize the City Administrative Officer (CAO), or designee, to:
 - a. Complete and submit clean energy tax credit claims to the Internal Revenue Service (IRS) by November 15, 2024, to be filed under Tax Identification No. 95-6000735, for reimbursement of eligible expenses related to the acquisition of zero-emission vehicles, installation of electric vehicle charging infrastructure, and qualified renewable energy projects; and,
 - b. Accept and deposit said federal reimbursement funds from the clean energy tax credit claims into Grants and Awards Fund No. 65W, Department No. 10, in a new appropriation account entitled, "Recovered Costs – Clean Energy Tax Credits";
2. Approve the use of reimbursement received for reinvestment in projects eligible for clean energy tax credit reimbursement, activities that reduce greenhouse gas emissions within City operations, or other climate mitigation measures;
3. Request the Controller to establish a separate interest-bearing account entitled, "Recovered Costs – Clean Energy Tax Credits" within the Grants and Awards Fund No. 65W, Department No. 10, and appropriate funds into the new appropriation account; and,
4. Instruct the CAO to report back on the amount of reimbursement received to allow Mayor and Council to reinvestment in projects eligible for clean energy tax credit reimbursement, activities that reduce greenhouse gas emissions within City operations, or other climate mitigation measures.

SUMMARY

In February 2023, this Office reported on various federal funding opportunities authorized from the Inflation Reduction Act of 2022 (IRA), including tax credits, rebates, grants, and loans aimed at eliminating greenhouse gasses and accelerating investment in clean energy infrastructure (C.F. 22-0947). This report provides an update on eligible IRA tax credits and requests authority for actions to effectuate tax credit reimbursement. This Office continues to coordinate with City departments to facilitate the grant approval process for other IRA-funded programs.

The IRA created new provisions for tax-exempt entities, such as local governments, to receive direct reimbursement for clean energy infrastructure costs through a refundable tax credit program administered by the Internal Revenue Service (IRS). A refundable tax credit allows an entity whose tax burden is zero to receive reimbursements up to the limit of the tax credit. The IRS clean energy tax credits for tax-exempt entities is also known as Direct Pay.

Upon review of all IRA tax credits described in the February 2023 report, three sections have been identified where the City can recover clean energy costs through IRS reimbursements, consisting of: zero-emission vehicles, electric vehicle charging infrastructure, and specific renewable energy projects. A summary of the tax credit sections applicable to the City’s clean energy investments, including base reimbursement rates and potential bonuses, is provided in the table below.

ELIGIBLE IRA TAX CREDIT SECTIONS – DIRECT PAY

Section No.	Eligible Expenses for Reimbursement	Reimbursement	Potential Bonus	
Section 30C	Installation of Electric Vehicle Chargers	6%	Prevailing Wage & Apprenticeship	24%
Section 45W	Acquisition of Zero-Emission Vehicles	\$7,500 per vehicle <14,000 lbs. \$40,000 per vehicle >14,000 lbs.	N/A	
Section 48	Renewable Energy Projects	Projects Over 1 Megawatt		
		6%	Prevailing Wage & Apprenticeship	24%
			Buy America	10%
			Energy Communities Criteria	10%
			Low Income Communities Criteria Applicable through Section 48(e)	10%
		Projects Under 1 Megawatt		
		30%	Prevailing Wage & Apprenticeship	N/A
			Buy America	10%
Energy Communities Criteria	10%			
Low Income Communities Criteria Applicable through Section 48(e)	10%			

Status on Tax Credit Reimbursement Claims

In February 2024, this Office solicited data from City departments to perform due diligence to determine the eligibility of expenses. Data was provided from the following departments:

- Department of Public Works,
 - Bureau of Engineering;
 - Bureau of Sanitation;
 - Bureau of Street Lighting;
 - Bureau of Street Services;
- General Services Department;
- Department of Transportation;
- Police Department; and,
- Los Angeles Zoo.

To maximize the value of the tax credit reimbursement, investments or projects must meet specific criteria outlined in federal program guidance such as, but not limited to, the following:

- Ownership of the asset or project site by the City;
- The asset or project must be placed in service;
- The City must provide payment records for the asset or project;
- Reimbursement is limited to the local share of a grant-funded asset or project; and,
- Ensuring each asset or project is pre-registered with the IRS prior to filing the claim.

Additional eligibility considerations specific to each tax credit section are as follows:

- For Section 30C – Installation of Electric Vehicle Chargers, charging units must be installed in low-income or non-urban population census tracts in accordance with national environmental justice initiatives;
- Section 45W – Acquisition of Zero-Emission Vehicles, vehicles must be made by a qualified manufacturer and used for business purposes only; and,
- Section 48 – Renewable Energy Projects, eligible project costs must be for qualified energy or electricity equipment.

While a significant portion of the submitted projects qualify for reimbursement, certain investments have been identified as potentially ineligible due to factors such as project timing, insufficient documentation, or specific project characteristics not aligned with IRS guidelines.

The inaugural City Direct Pay reimbursement claim is currently being compiled and we are not yet able to determine the final reimbursement request amount. The deadline for submission to the IRS is November 15, 2024. Given that this is the first year of the program, it is anticipated that the IRS will release reimbursement payments within six to 12 months after the filing deadline.

Upon successful receipt of the anticipated IRA tax credit reimbursements, this Office will report back on the amount of reimbursement received to allow the Mayor and Council to consider it in the budget development process as part of the City's investment in clean energy infrastructure.

FISCAL IMPACT STATEMENT

There is no impact to the General Fund as a result of the recommendations in this report.

FINANCIAL POLICIES STATEMENT

The recommendations in this report comply with the City Financial Policies.