INVESTMENT BANKING DIVISION

Inflation Reduction Act:
Potential Impacts For Municipalities

Goldman Sachs & Co. LLC

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Summary

Legislation Status	■ On July 27th, 2022 Democratic leadership announced the Inflation Reduction Act of 2022 (the Act), a far-reaching plan to extend and expand clean energy subsidies and make changes to the tax code ■ On August 7th, the Senate adopted the legislation by a 51/50 vote (with the Vice President casting the tie-breaking vote) ■ Passed by the House on August 12th ■ Signed into law by President Biden on August 16th
Impacts for Municipal Entities	■ The Act allows tax-exempt issuers to directly "claim" clean energy tax credits, reducing project costs for school districts, universities, airports and general governments who want to own renewable generation (i.e. solar) or storage (i.e. batteries) — Previously, non-taxpaying entities were precluded from taking advantage of such tax incentives requiring complicated leases/contractual relationships ■ Primary incentives include the Investment Tax Credit ("ITC"), which provides a subsidy of up to 30% of the installed costs of a project, and the Production Tax Credit ("PTC") which provides a subsidy based on the power generated by such assets — Entities can elect to take either the ITC or PTC, but not both ■ Although projects funded with tax-exempt debt reduce subsidies by up to 15% (30% credit becomes 25.5%), tax-exempt debt remains more beneficial than taxable debt ■ **Subsidies will be paid directly to issuers** and benefit from features designed to mitigate sequestration

The Inflation Reduction Act provides for clean energy incentives, many of which are available to municipalities. We welcome a discussion with you to discuss likely impacts.

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Production Tax Credits and Investment Tax Credits

PTC Changes from Current Law

- *Eligible Technologies*: Wind, geothermal, closed loop biomass and ***solar***
  - — Given lower capacity factors of solar, unlikely PTC will be heavily used except in situations where there is a tax-equity preference
- *Credit:*
  - — Base Credit: *2.6/kWh (adjusted for inflation) for projects completed in 2022 or later, and start construction before 2024
- Tax-exempt entities can claim tax credits

ITC Changes from Current Law

- *Eligible Technologies*: Solar, geothermal, offshore wind, and ***standalone storage***
- *Credit:*
  - — Base Credit: 30% of investment
  - — ITC could reach as high as 50% with incentives
  - — Extended for at least 10 years
- Tax-exempt entities can claim tax credits

Existing PTC Regulations

- *Eligible Technologies*: Wind, geothermal, and closed loop biomass
- *Credit*: Full credit is ~$26/MWh
  - — Wind systems that started construction prior to 2020, and geothermal and biomass that started construction in 2020 and 2021 are eligible for 100%
  - — Wind systems that started construction in 2020 or 2021 qualify for a 60% PTC
  - — Practically, most wind farms were still using grandfathered turbines to achieve 100% subsidy
- Tax-exempt owners are not eligible to claim tax credit

Existing ITC Regulations

- *Eligible Technologies*: Solar, geothermal, and offshore wind
- *Credit*: Full credit is 30% of invested amount
  - — Solar: Currently 26% for projects starting construction by end of 2022, declining to 22% for 2023-2025, and 10% thereafter
  - — Geothermal: 10%
  - — Offshore Wind: 30% if construction starts before 2026
- Tax-exempt owners are not eligible to claim tax credit

**2.6 cents / kWh is based on 2022 inflation adjustments*

Sample Municipal Financing for Renewable Project

Sample Project

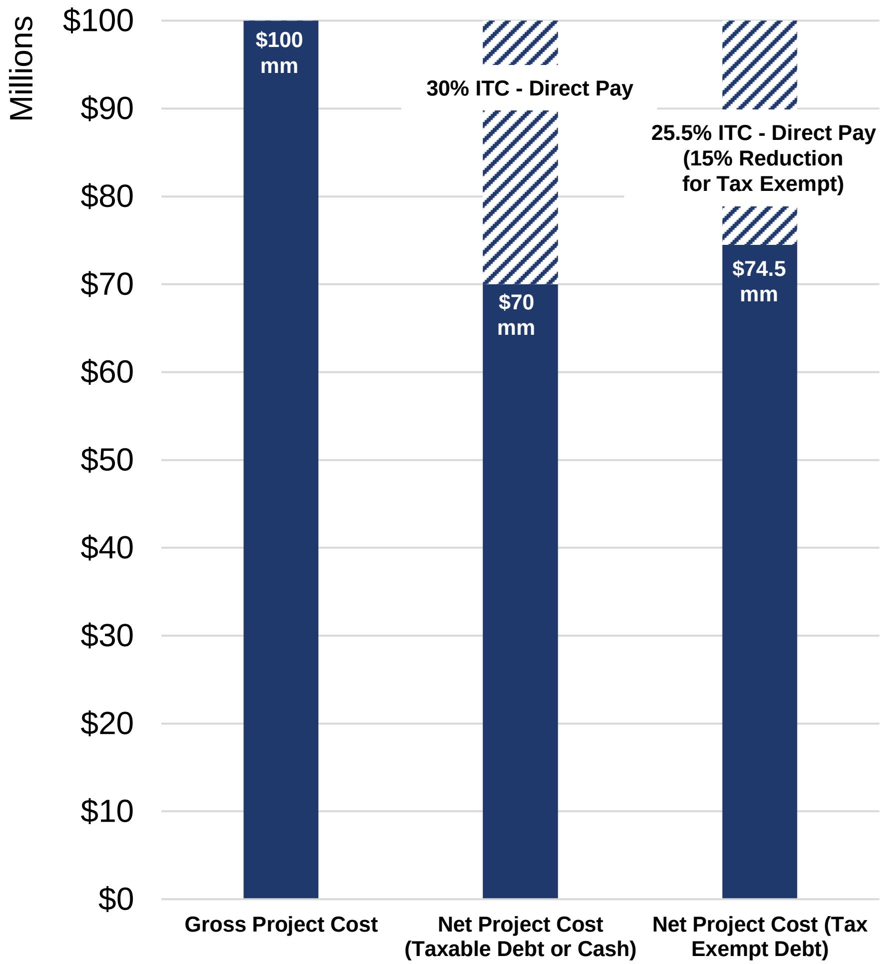
- Illustrative example: $100 million solar project
- Subsidy election: 30% ITC
- Construction starts prior to 12/31/2024
- Using tax-exempt debt

Source: goldmansachs.com

Reasons to Consider Municipal Ownership

- Potential for lower net project cost
- Greater control over development process
- Retained value of ownership after typical lease or PPA terms end
- Lease financing may not be allowed
- Smaller projects may be aggregated to achieve economies of scale

Project Cost Net of Subsidies[1]



1. Assumes prevailing wage and apprenticeship requirements are met.

Details on Renewable Credit Levels

Credit Details

- To receive the full credit, a project must meet prevailing wage and apprenticeship requirements during construction and 10 years following commercial operation
  - — Projects not meeting these requirements receive 20% of Full Amount
    - – For example, 30% ITC becomes 6%
- *Prevailing Wage Requirement:* Laborers and mechanics employed by contractors and subcontractors in construction and alteration or repair of a facility must be paid wages not less than prevailing rates as determined by the Secretary of Labor (i.e. Davis-Bacon wages).
- *Apprenticeship Requirements:* For contractors with more than four employees, one in every four employees employed by contractors or subcontractors must be a qualified apprenticeship.
- *Requirements will not apply to any project which starts construction no later than 59 days after the IRS issues guidance on implementing the rules (timing of guidance is uncertain)*

Additional Incentives

- PTCs and ITCs will be eligible for two independent 10% bonuses:
  - — *Energy Community Bonus Credit*: Constructed in:
    - – Brownfield sites;
    - – Areas with significant employment (post-1999) related to extraction, processing, transport, or storage of coal, oil or natural gas; or
    - – Any census tract (or adjoining tract) that had either a coal mine close after 1999 or coal-fired electric generating unit retired after 2009.
  - — *Domestic Content Bonus Credit*: Taxpayer must certify that any steel, iron, or manufactured product which is part of the PTC facility was produced in the United States.
    - – For this purpose, manufactured products will be considered manufactured in the United States if the “adjusted percentage” of the total cost of the components of such product are mined, produced, or manufactured in the United States. The adjusted percentage is 40% and 20% for offshore wind facilities

Practically, we understand that all contractors will seek to meet the “Full Credit” requirements; due to supply chain issues, the “Domestic Content Bonus” will be difficult to meet

PTC, ITC and New Tax Credits – Cheat Sheet

	Production Tax Credit (PTC)	Investment Tax Credit (ITC)
Eligible Technologies	Geothermal, wind, closed- and open-loop biomass, landfill gas, municipal solid waste, hydropower, marine and hydrokinetic facilities	Solar, geothermal, fiber-optic solar, fuel cell, microturbine small wind, offshore wind, CHP, waste-to-energy, stand-alone storage
Credit Amount	2.6* cents / kWh (if meet wage requirements)	30% of eligible investment (if meet wage requirements)
Inflation Indexed	Yes	No
Domestic Content Bonus	10%	10%
Energy Community Bonus	10%	10%
Construction Start Date (Prior to)	12/31/2024	12/31/2024
Phase Out Date (Prior to)	12/31/2032	12/31/2032

	Clean Electricity PTC	Clean Electricity ITC
Eligible Technologies	Any technology producing zero carbon	Any technology producing zero carbon
Base Credit Amount	0.3 cents / kWh	6% of eligible investment
Full Credit Amount	2.6 cents / kWh	30% of eligible investment
Inflation Adjusted	Yes	No
Domestic Content Bonus	10%	10%
Energy Community Bonus	10%	10%
Construction Start Date (After)	1/1/2025	1/1/2025
Phase Out Date (After)	12/31/2032	12/31/2032

**2.6 cents / kWh is based on 2022 inflation adjustments*