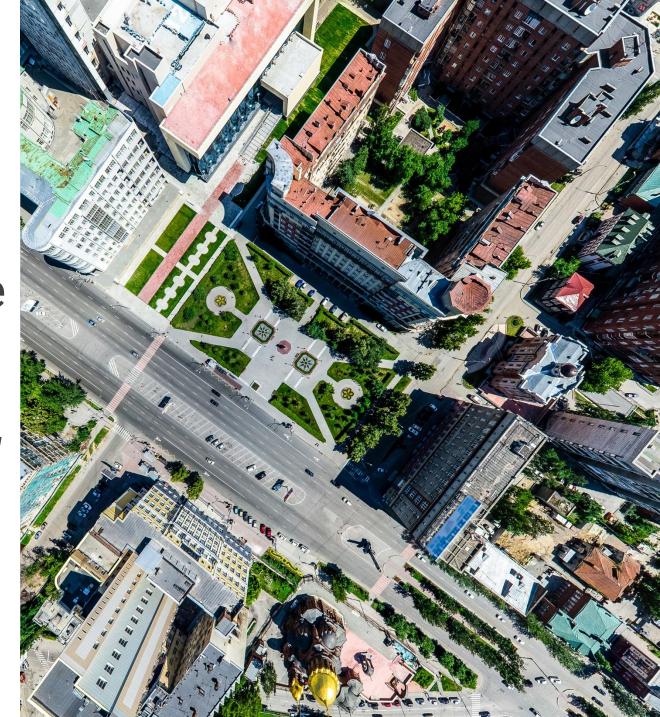# DecarbonizeNOW
The IRA, Strategic Financing and Compliance

Webinar 2: Exploring the Details, Strategic Financing for IRA

ULI NORTHWEST

SEPTEMBER 2024

Agenda

- Welcomes and Introductions- Marta Schantz (5 mins)

- Dive into financial modeling of IRA tax credits and other green finance mechanisms – Seydina Fall (30 mins)

- Fireside chat/ Audience Q&A (25 mins)

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Introductions

Marta Schantz
Urban Land Institute

Seydina Fall
Johns Hopkins University

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Johns Hopkins University

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Discounted Cash Flow Model Basics

- Section 179D: Energy efficient commercial buildings **deduction**

- Section 48C: Qualifying advanced energy project **credit**

- Section 30C: Alternative fuel vehicle refueling property **credit**

- Section 45L: New energy efficient home **credit**

Discounted Cash Flow Model Basics

- Determine if there are any existing **rent premiums** ("greenium") due to sustainable features

- Determine if there are operational benefits due to **energy efficiency** or **water saving** design that can be reflected on projected cash flows

- Quantify transition by adjusting the **discount rate**

- Weigh whether tax credits are **accretive to cash flows** despite possible recapture

- Additional CAPEX vs lower financing cost (**payback period**)

  ➢ Possible fines for non-compliance (BEPS, local law 97, etc.)

Modeling Tax Credits

- Numerous tax benefits, such as the <u>Solar Investment Tax Credit, have been extended by the IRA</u>

- Assume you:

  - ➢ Purchase a building for $10 million

  - ➢ Spend $2 million on solar equipment and installation

- Your tax credit is equal to: $2 million * 30% = $600K

- This in effect reduces the amount of equity you need to raise by $600K

Modeling Tax Credits

- The 600K credit will reduce the **adjusted basis (original purchase price – accumulated depreciation)** of the property

- If the adjusted basis was $9.8 million, then after the solar tax credit the basis will go down to $9.8 million - $600K = $9.2 million

- Depreciation is now: $9.2 million / 39 = $235.8K

- Depreciation expense would have been: $9.8 million / 39 = $251.282K

Modeling Green Financing

- Let's **use C-PACE** as an example

  - ➤ C-PACE = Commercial Property Assessed Clean Energy

- Flexible form of ESG financing which offers borrowers: a low cost, long-term, fixed rate; pre-payable funding in exchange for making efficiency or resiliency upgrades to buildings

- Proceeds are collateralized by a special assessment on the property and the interest and/or principal payments are paid back as a line item on the property tax bill for the duration of the useful life of the improvements

- Property tax bill will increase by the interest and/or principal payment due that period

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CAPITAL STRUCTURE #1

Anticipated Cost to Retrofit   **$31,782,220**

Sources of Funds

	% Total	Amount
Equity	**20.00%**	$6,356,444
Senior Loan	**80.00%**	$25,425,776
Total Sources of Funds	**100.00%**	**$31,782,220**

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CAPITAL STRUCTURE #2

Anticipated Cost to Retrofit		$31,782,220

Sources of Funds

	% Total	Amount
Equity	**20.00%**	$6,356,444
C-PACE	**20.00%**	$6,356,444
Senior Loan	<u>**60.00%**</u>	<u>$19,069,332</u>
	-	-
Total Sources of Funds	**100.00%**	**$31,782,220**

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Green Financing Modeling Principles

- Add to CAPEX "below the line"

- Reduce interest rates by a few basis points

- Adjust your discount rate and cap rates going forward

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Q&A

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