



**CPAs & BUSINESS ADVISORS**

# **HOW THE ENERGY INCENTIVE PROGRAM BENEFITS HEALTHCARE**

**Healthcare Financial Management Association – Red River Showdown**

**October 20, 2023**

# OPENING REMARKS

- Take time to scan QR code for materials
- Feel free to take pictures
- Follow along on the handout
- We will be aimlessly walking around at the networking event
- Team of 20+ Energy Incentive Consultants that include Professional Engineers, CPAs, Attorneys
- [mdrogers@eidebailly.com](mailto:mdrogers@eidebailly.com)
- 5-minute check



# EIDE BAILLY AT THE CASINO



**Mark Rogers**

Principal, Energy Incentive Program  
Chicago, Illinois



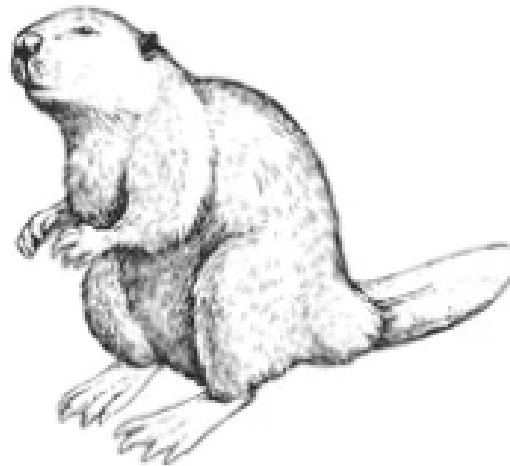
**Tyler Bernier**

Partner, Healthcare Industry  
Oklahoma City, Oklahoma

# THE CHARACTERS



Hospital Owner



Designer  
*Architect, Engineer,  
Contractor*



Energy Incentive  
Consultant  
*CPAs, Professional Engineers,  
Lawyers*

# THE CHALLENGE

During the Climate Economy in the Winter of 2022/2023:

- A 40,000 square foot ER renovation in South Dakota needed a new HVAC system.
- The choices were a natural gas-powered system or a geothermal one.



The hospital wanted to be energy efficient and sustainable, but did not have the funds to cover the \$800,000 for the upgrade to a geothermal-powered system.

# THE RESOLUTION



The Energy Incentive Consultant guided the Building Owner and Designer through the Energy Incentive Program



## Hospital Owner

- \$1.2M incentive (direct pay or credit)
- Covers \$800K upgrade to geothermal
- \$400K extra
- Sustainable and Green
- Utility bill decrease



## Designer

- \$200K deduction
- \$80K more in designer fees from increased scope
- Goodwill from a happy client
- Right down main street for the Research & Development Credit (R&D)



# THE CLIMATE ECONOMY

\$570 billion of energy incentives according  
to the Congressional Budget Office

\$1.7 trillion of energy incentives according  
to investment bank Credit Suisse





The background of the image shows a person's hands typing on a laptop keyboard. Above the laptop, several green circular icons are floating, each containing a white symbol: a wind turbine, a factory with smoke and 'CO2', a globe, a sun, a leaf, a water bottle, a bicycle, a recycling symbol, and a cloud with 'CO2' and three downward arrows. The overall theme is climate change and sustainability.

# CLIMATE ECONOMY

10 Years of **Materiality**

10 Years of **Availability**



# UNITED NATIONS ADOPTED IN 2015



# 9

Green Building SDGs of 17

# CORPORATE PARADIGM SHIFT: FROM SHAREHOLDERS TO STAKEHOLDERS

## 2022 SUSTAINABILITY REPORT

THE ROAD TO 2030 IS PAVED WITH OPPORTUNITIES...  
AND OBSTACLES.



- Purpose over Profit
- Conscious Capitalism
- Green Building Certifications



# THE CLIMATE ECONOMY

- Power Marketing Administration transmission borrowing authority
- Electric grid reliability and resilience research
- CHIPS for America Fund
- CHIPS for America Defense Fund
- CHIPS for America International Technology Security and Innovation Fund

Grid resiliency

Transportation

- Formula funding
- Competitive grants
- eMobility
- Increased contract authority

Advanced Manufacturing

- 48C
- 45X
- Advanced Technology Vehicles Manufacturing Loan Program
- Domestic manufacturing conversion grants
- Advanced Industrial Facilities Deployment Program
- Advanced Manufacturing Investment Tax Credit
- Advanced energy manufacturing and recycling grants

Renewable/  
clean energy

- 45 Clean Energy Production Tax Credit (PTC)
- 45U Zero Emission Nuclear Power PTC
- 45V Hydrogen PTC
- 45Y Technology neutral PTC
- **48 Clean Energy Investment Tax Credit (ITC)**
- 48E Clean Electricity Investment Credit

CHIPS

IRA

- Energy Infrastructure Act of 2021
- Army Corps of Engineers infrastructure priorities

Resilience and  
climate change

IIJA

- **30C Alternative Refueling Infrastructure**
- 30D Clean Vehicle Credit
- **45W Qualified Clean Commercial Vehicles**
- Clean Heavy-Duty Equipment and Vehicle Program
- Clean School Bus Program

Fleet  
decarbonization

Renewable fuels

- 40A Biodiesel and Alternative Fuels Credit
- 40B Sustainable Aviation Fuel Credit
- 45Z Clean Fuel Production Credit
- Alternative Fuel and Low Emission Aviation Technology Program\*
- Incentives for biodiesel, renewable diesel and alternative fuels\*

Energy-efficient  
buildings

- 45L New Energy Efficient Home Credit
- **179D Energy Efficiency Commercial Buildings**

Carbon  
sequestration

- 45Q Carbon Capture and Sequestration Credit
- Carbon removal
- Carbon storage validation and testing





## **Inflation Reduction Act**

Build a strong, sustainable  
development strategy



- Clean energy
- Climate mitigation
- Resilience
- Agriculture
- Conservation-related incentives



**“We have money and momentum.”**

*-Robin Carnahan, Administrator of the U.S. General Services Administration*



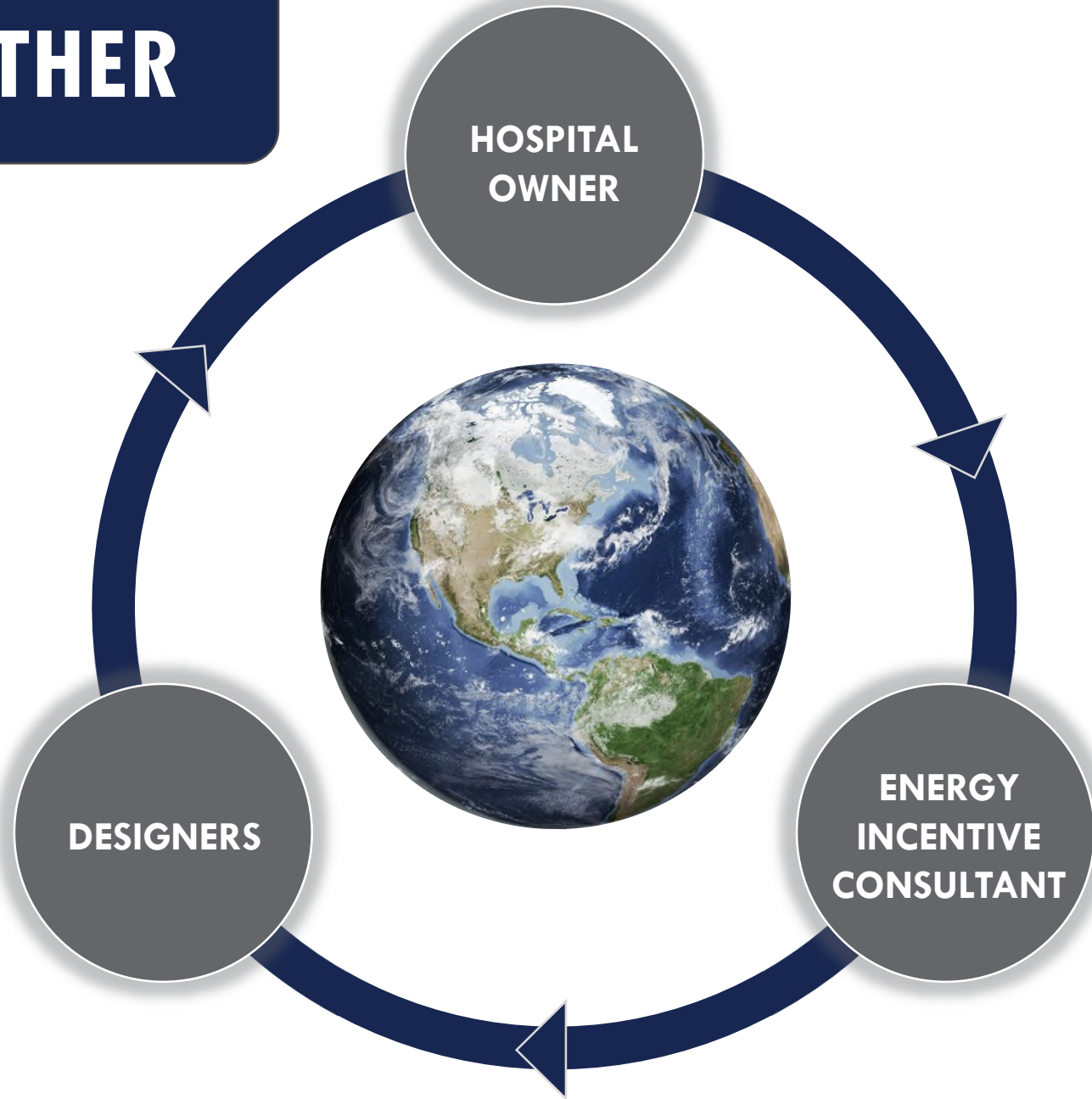
# WHERE CONSTRUCTION AND ACCOUNTING MEET



## Energy Incentive Program



# COME TOGETHER

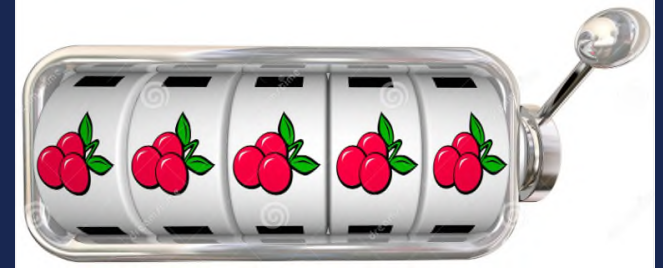


## BONUS FOR CLEAN ENERGY INCENTIVES

- Low-income communities
- Energy communities
- Pay prevailing wages
- Use registered apprentices
- Meet domestic content requirements



5x BONUS







# RENEWABLES

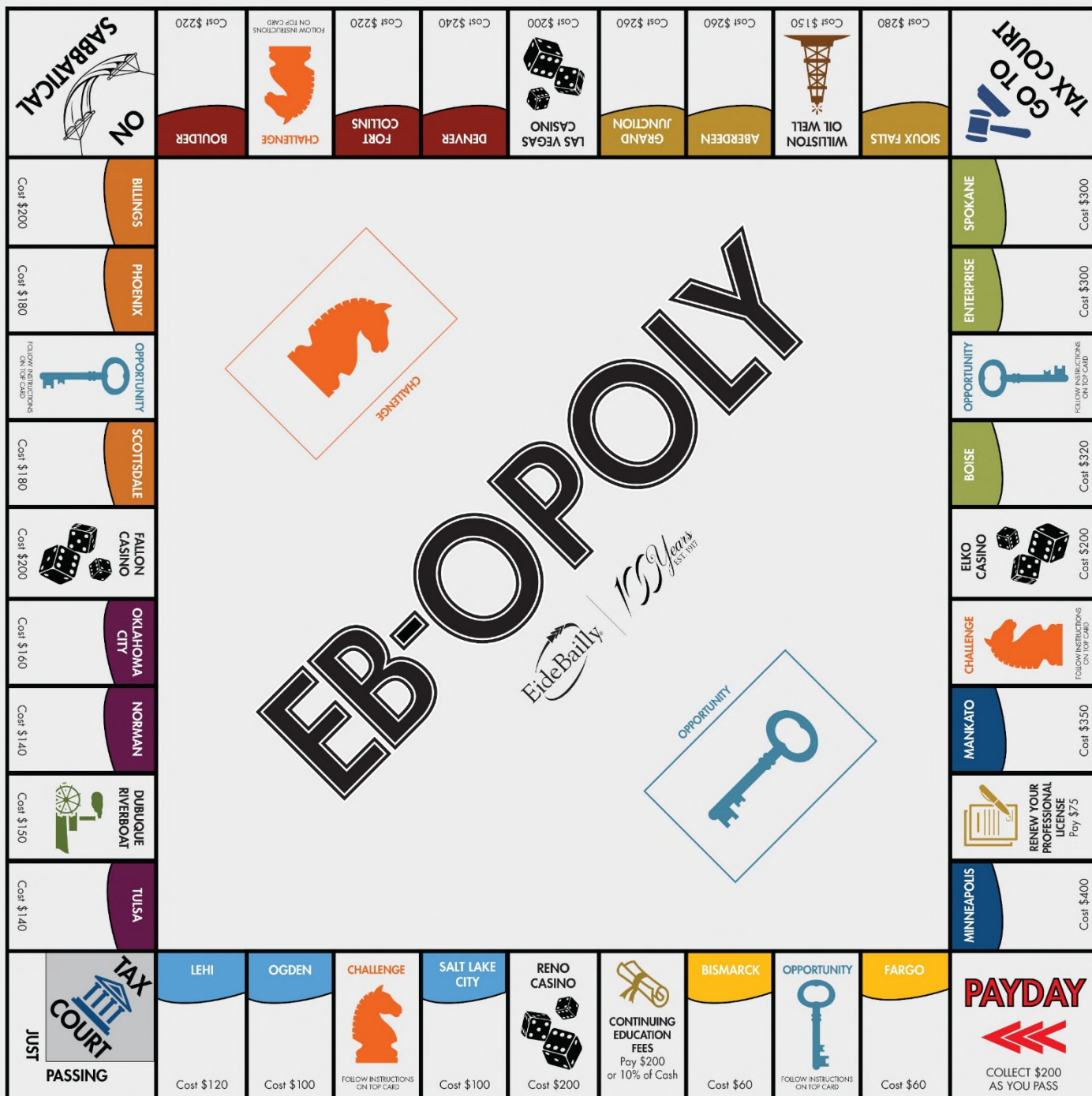
Clean Energy Investment Tax Credit (§48)



# WELCOME TO GAME NIGHT

For the first time in legislative  
history Exempt Organizations  
are invited to play in the  
**Energy Incentive Program**

# DIRECT PAY



For the first time ever Exempt Organizations have been invited to the Energy Incentives Program courtesy of the Inflation Reduction Act:

- **Healthcare**
- Institutions of Higher Education
- K-12 Districts & Schools
- Senior Living
- Alaska Native Corporations
- Governments including Indian Tribal Governments
- Nonprofits (e.g. Museums)
- Rural Electric Co-operatives\*
- Affordable Housing\*





# ENERGY INCENTIVE PROGRAM

## Clean Energy Investment Tax Credit (Section 48)

Investment in equipment that produces energy from alternative sources:

- Solar
- Wind
- Geothermal (*including ground source thermal energy*)
- Fuel Cells
- Microturbines
- Combined heat and power systems
- Equipment that recovers waste energy
- Energy storage
- Biogas
- Microgrid controllers
- Electrochromic Glass

### Project “Economic Drivers”

- Basic credit = 6% of cost
- If wage rules met = 30% of cost
- If domestic content = + 10%
- If in a “energy community” + 10%
- Additional bonuses for solar and wind with an environmental justice allocation.



# BASIS + PERCENTAGE = BRIEFCASE OF CASH



$$\$800,000 \times 6\% = \$48,000$$



$$\$3,000,000 \times 40\% = \$1,200,000$$

- Functional Interdependence Test
- Soft cost indirect spread (263A)
- Eligible bonus percentages
- Registration process





## BEST PRACTICE TIPS

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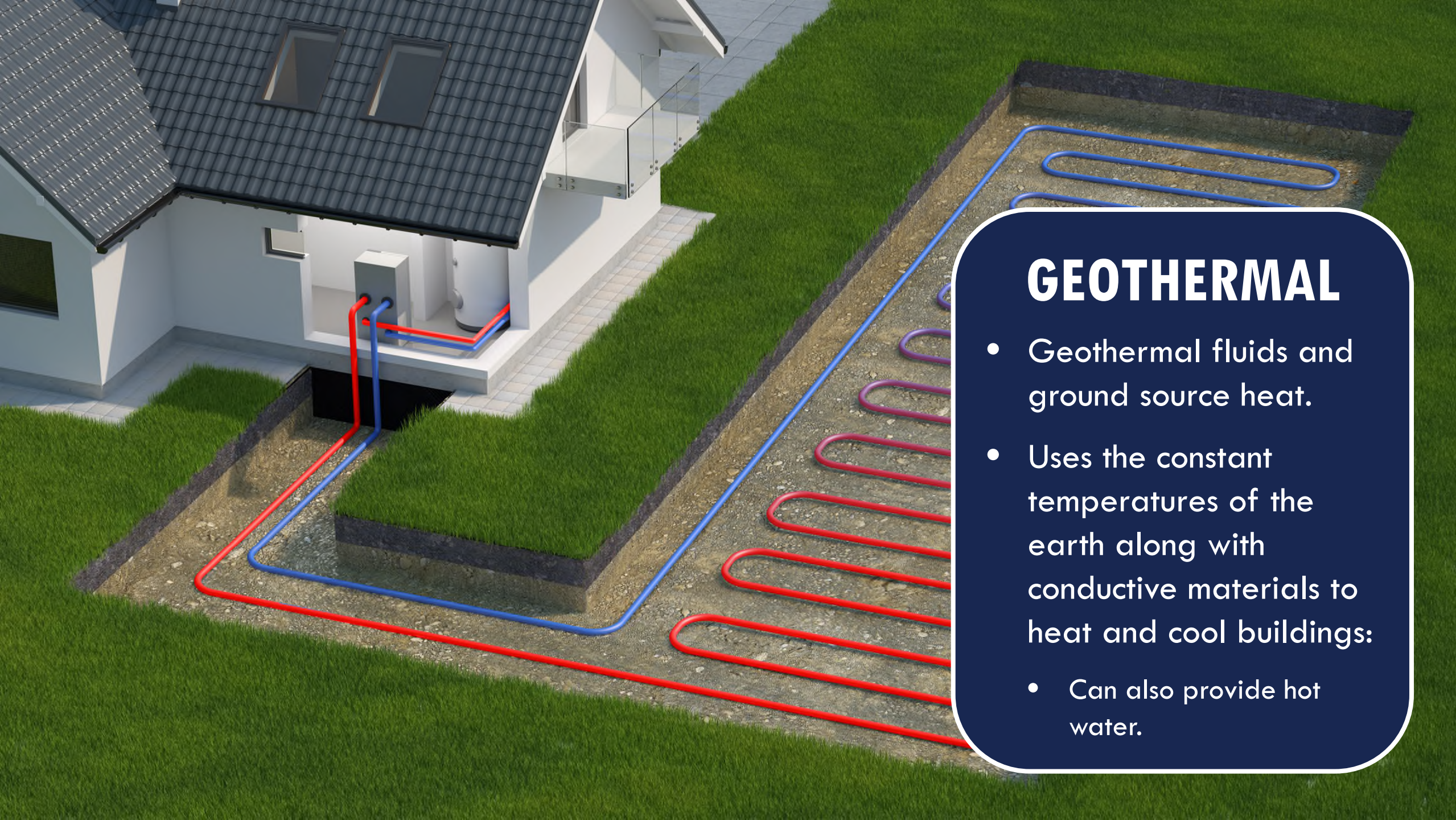
- Work with your designers to get alternate bids for energy property.
- Work with your facility engineer to incorporate energy property in your Capital Expenditure Requests

# SOLAR

- Solar Eligibility:
  - Electrical Production
  - Water Heating:
    - (EXCEPT for swimming pools)
  - Illumination







# GEO THERMAL

- Geothermal fluids and ground source heat.
- Uses the constant temperatures of the earth along with conductive materials to heat and cool buildings:
  - Can also provide hot water.



The image shows two small-scale wind turbines mounted on the roof of a multi-story brick building. The turbines have three blades each and are positioned against a clear blue sky. The building is made of red brick and has several windows visible. A dark blue rounded rectangle with white text is overlaid on the right side of the image.

# SMALL SCALE WIND ENERGY

- Eligibility:
  - Turbines with nameplate capacity of no more than 100 kW.



# FUEL CELLS

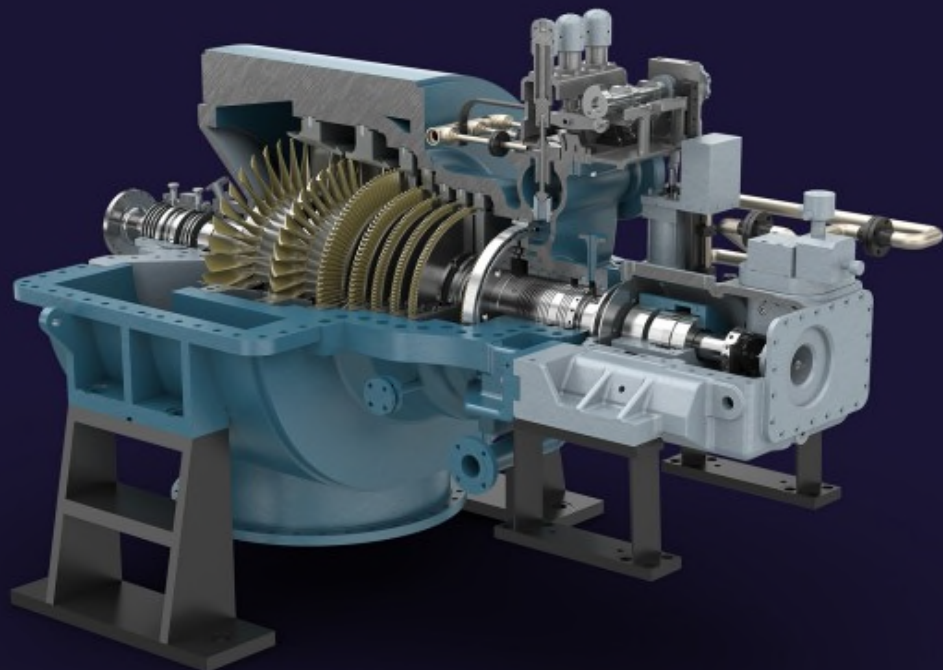
- Fuel Cells:
  - Hydrogen + Oxygen + Catalyst = Electricity + Heat + Water
- Linear Generator:
  - Hydrogen + Ammonia » Magnets + Copper Coils » Electricity
- Eligibility:
  - Fuel cell stack assembly with capacity > 0.5kW
  - Linear generator assembly with capacity > 1kW



# COMBINED HEAT & POWER (COGENERATION)

- Gas-fired or steam turbine produces electricity; waste heat/steam is recovered and used for heating/cooling
- An energy efficiency standard of at least 60%
- 20% or greater must be achieved by the nonprimary source





# WASTE ENERGY RECOVERY

- Converts waste energy (usually heat) into electricity:
  - Ovens, kilns, furnaces, boilers
  - Mechanical motors and engines
  - Exothermic chemical processes
- Typically, industrial applications
- Eligibility:
  - Capacity > 50 MW
- No efficiencies or power management systems required

# MICROGRID CONTROLLERS

- Microgrid Controllers monitor and control the energy resources and loads on a Qualified Microgrid
- Qualified Microgrid:
  - Generates between 4kW and 20MW
  - Can operate both in connection with and independent from main grid







# ENERGY STORAGE

- Batteries
- Thermal
- Hydrogen
- Mechanical



# BIOGAS

- Converts wood, cooking fats, crop residues, and other organic matter to gas
- Typically an anaerobic digester
- Eligibility:
  - Gas produced must be  $\geq 52\%$  methane
  - Gas must be captured for sale or productive use





# ELECTROCHROMIC GLASS

- uses solar energy to illuminate the inside of a structure using fiber-optic distributed sunlight
- uses electricity to change light transmittance properties of glass





# DECARBONIZATION

Alternative Refueling Infrastructure (§30C)

Electric Commercial Fleet (§45W)

Carbon Capture and Sequestration (§45Q)



# ENERGY INCENTIVE PROGRAM

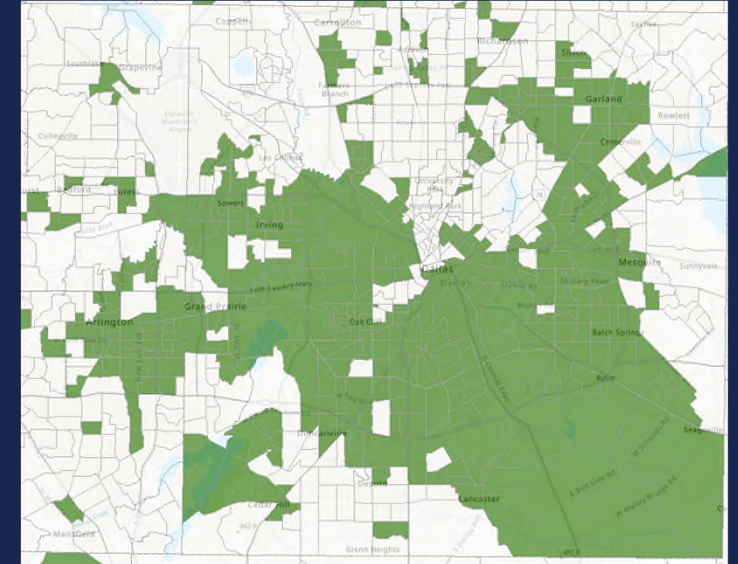
## ELECTRIC COMMERCIAL FLEET

- Section 45W
- Under 14,000 lbs, up to \$7,500 per vehicle
- Over 14,000 lbs, up to \$40,000 per vehicle

## EV INFRASTRUCTURE

- Section 30C
- Alternative fuel vehicle refueling and charging property
- Located in low-income and non-urban areas
- 6% or 30%
- Up to \$100,000 per charging unit

## LOW INCOME AREAS







## **ENERGY EFFICIENCY**

Energy Efficiency Commercial Buildings (§179D)



# ENERGY EFFICIENT COMMERCIAL BUILDINGS DEDUCTION – PRIOR VS. TODAY

## SECTION 179D PRIOR

- \$1.80-\$1.88 deduction per square foot
- Lighting, HVAC and Envelope
- Life-time cap
- Started in 2006 and has since been made permanent
- Applies to private owners, and designers of government buildings

## SECTION 179D IN THE IRA

- Status quo for 2022
- Starting in 2023 through 2032:*
- Base Deduction: \$0.54 to \$1.07 per SF
- **Bonus Deduction: \$2.68 to \$5.36 per SF**
- Lighting, HVAC and Envelope
- **Three-year cap**
- Applies to private owners, and designers of government and **tax-exempt entity** buildings

# 179D ENERGY EFFICIENT DEDUCTION – TWO WAYS



## For-Profit Healthcare

- Extended permanently
- Form 3115 back to January 1, 2006
- Building owners or tenants
- Energy modelers
- Professional Engineers licensed in state



## Designers for NFP Healthcare

- Extended permanently
- Amended returns in open tax year
- **Exempt Organization assigns to designers**
- Architects, Engineers and Contractors
- Energy modelers
- Professional Engineers licensed in state

# 179D – QUALIFICATION REQUIREMENTS

Energy use must be 50% below a reference building in comparison to the applicable ASHRAE Standard 90.1

Energy savings split in 3 categories:

- Envelope
- HVAC/hot water
- Lighting



## §179D – POSITIVE FACTORS

Strong indicators of at least partial qualification:

Level of insulation

HVAC efficiency

LED lighting

# HOW THE 179D DEDUCTION IS CALCULATED

## Part III. Administrative, Procedural, and Miscellaneous

### Deduction for Energy Efficient Commercial Buildings

#### Notice 2006-52

##### SECTION 1. PURPOSE

This notice sets forth interim guidance, pending the issuance of regulations, relating to the deduction for energy efficient commercial buildings under § 179D of the Internal Revenue Code. Specifically, this notice sets forth a process that allows a taxpayer who owns, or is a lessee of, a commercial building and installs property as part of the commercial building's interior lighting systems, heating, cooling, ventilation, and hot water systems, or building envelope to obtain a certification that the property satisfies the energy efficiency requirements of § 179D(c)(1) and (d). This notice also provides for a public list of software programs that must be used in calculating energy and power consumption for purposes of § 179D. The Internal Revenue Service and the Treasury Department expect that the rules set forth in this notice will be incorporated in regulations.

##### SECTION 2. BACKGROUND

.01 *In General.* Section 1331 of the Energy Policy Act of 2005, Pub. L. No. 109-58, 119 Stat. 594 (2005), enacted § 179D of the Code, which provides a deduction with respect to energy efficient commercial buildings. Section 179D(a) allows a deduction to a taxpayer for part or all of the cost of energy efficient commercial building property that the taxpayer places in service after December 31, 2005, and before January 1, 2008. (See section 2.02 of this notice.) Sections 179D(d)(1) and 179D(f) allow a deduction to a taxpayer for part or all of the cost of certain partially qualifying commercial building property that the taxpayer places in service after December 31, 2005, and before January 1, 2008. (See sections 2.03, 2.04, and 2.05 of this notice.) For purposes of this notice partially qualifying commercial building property is property that would be energy efficient commercial building property but for the failure to achieve the 50-percent reduction in energy and power

costs required under section 2.02(1)(c) of this notice.

.02 *Energy Efficient Commercial Building Property.*

(1) *In General.* Energy efficient commercial building property is depreciable property that satisfies each of the following conditions:

(a) The property is installed on or in any building that is located in the United States and is within the scope of Standard 90.1-2001. (See section 5.02 of this notice for the description of buildings within the scope of Standard 90.1-2001 and section 5.06 of this notice for the complete description of Standard 90.1-2001.)

(b) The property is installed as part of—  
(i) the interior lighting systems,  
(ii) the heating, cooling, ventilation, and hot water systems, or  
(iii) the building envelope.

(c) It is certified that the interior lighting systems, heating, cooling, ventilation, and hot water systems, and building envelope that have been incorporated into the building, or that the taxpayer plans to incorporate into the building subsequent to the installation of such property, will reduce the total annual energy and power costs with respect to combined usage of the building's heating, cooling, ventilation, hot water, and interior lighting systems by 50 percent or more as compared to a Reference Building that meets the minimum requirements of Standard 90.1-2001. The required 50-percent reduction must be accomplished solely through energy and power cost reductions for the heating, cooling, ventilation, hot water, and interior lighting systems. Reductions in any other energy uses, such as receptacles, process loads, refrigeration, cooking, and elevators, are not taken into account in determining whether the 50-percent reduction is achieved.

(2) *Maximum Amount of Deduction.*

(a) *In General.* The deduction for the cost of energy efficient commercial building property installed on or in a building shall not exceed the excess (if any) of—

(i) the product of \$1.80 and the square footage of the building, over

(ii) the aggregate amount of the § 179D deductions allowed with respect to the building for all prior taxable years.

(b) *Application to Multiple Taxpayers.*

If two or more taxpayers install energy efficient commercial building property on or in the same building, the aggregate amount of the § 179D deductions allowed to all

such taxpayers shall not exceed the amount allowed under section 179D.

.03 *Partially Qualifying Property.*

(1) *In General.* Property, within the scope of this notice, is partially qualifying property if it is not permanent and is not installed as part of the building's heating, cooling, ventilation, and hot water systems, or building envelope.

(2) *Application to Multiple Taxpayers.*

If two or more taxpayers install energy efficient commercial building property on or in the same building, the aggregate amount of the § 179D deductions allowed to all

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(e) *Application to Multiple Taxpayers.*

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(f) *Application to Multiple Taxpayers.*

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(g) *Application to Multiple Taxpayers.*

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(h) *Application to Multiple Taxpayers.*

If two or more taxpayers install energy efficient commercial building property on or in the same building, the aggregate amount of the § 179D deductions allowed to all

such taxpayers shall not exceed the amount allowed under section 179D.

## SECTION 3. METHOD OF COMPUTATION

.01 *In General.* The Performance Rating Method (PRM) must be used to compute the percentage reduction in the total annual energy and power costs with respect to combined usage of a building's heating, cooling, ventilation, hot water, and interior lighting systems as compared to a Reference Building that meets the minimum requirements of Standard 90.1-2001.

.02 *Performance Rating Method (PRM).* For purposes of this notice, the PRM includes the following computations:

(1) *Reference Building Energy and Power Costs* equal the sum of the energy and power costs for the following components of the Reference Building:

- (a) Interior Lighting,
- (b) Heating,
- (c) Cooling,
- (d) Ventilation, and
- (e) Hot Water.

(2) *Proposed Building Energy and Power Costs* equal the sum of the energy and power costs for the same components of the Proposed Building.

From Notice 2006-52

Performance Rating method using the energy and power costs for the following end uses only:

- Interior Lighting
- Heating
- Cooling
- Ventilation
- Hot Water

All exterior and process loads, including refrigeration, cooking, and receptacles (Misc. Equip), are **not** included in the savings calculations.

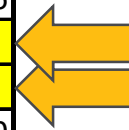
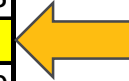
# HOW THE 179D DEDUCTION IS CALCULATED

ASHRAE 90.1-2007 Savings Methodology

	Baseline	Proposed
Space Cool	\$77,862	\$36,457
Heat Reject.	\$2,561	\$1,393
Refrigeration	\$2,305	\$2,305
Space Heat	\$157,818	\$81,580
HP Supp.	\$0	\$0
Hot Water	\$3,324	\$3,294
Vent. Fans	\$306,838	\$158,173
Pumps & Aux.	\$137,283	\$39,126
Ext. Usage	\$12,806	\$9,221
Misc. Equip.	\$117,520	\$117,520
Task Lights	\$0	\$0
Area Lights	\$94,766	\$64,257
Total	\$913,084	\$513,325
Savings		43.8%

179D Deduction Savings Methodology

	Baseline	Proposed
Space Cool	\$77,862	\$36,457
Heat Reject.	\$2,561	\$1,393
Refrigeration		
Space Heat	\$157,818	\$81,580
HP Supp.	\$0	\$0
Hot Water	\$3,324	\$3,294
Vent. Fans	\$306,838	\$158,173
Pumps & Aux.	\$137,283	\$39,126
Ext. Usage		
Misc. Equip.		
Task Lights	\$0	\$0
Area Lights	\$94,766	\$64,257
Total	\$780,452	\$384,279
Savings		50.8%

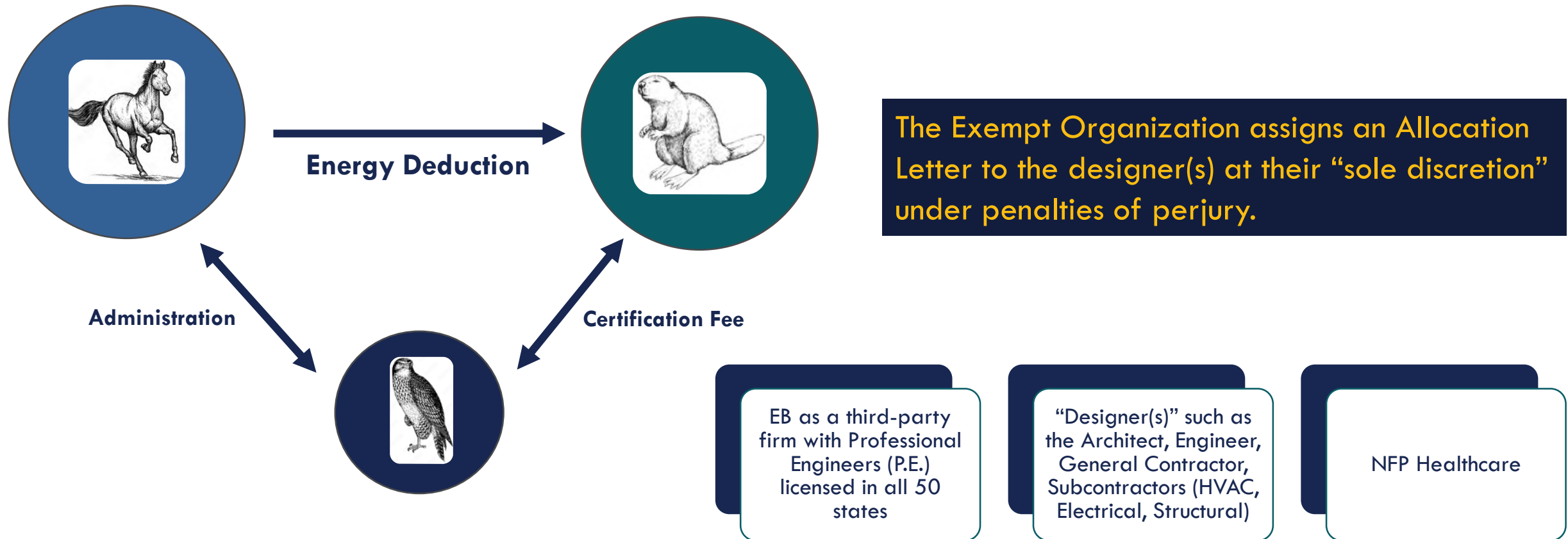


By removing these loads from both the baseline and proposed models, savings typically increases for 179D models compared to a traditional Appendix G model



# ENERGY INCENTIVE PROGRAM

## Energy Efficiency Commercial Buildings (Section 179D)



# 179D – ALLOCATION LETTER

## Allocation Letter

Government-Owned Building Information				
Property Address	City, State Zip	Placed in Service	Cost of Property	Amount Allocated

Governmental Building Owner Authorized Representative Information	
Agency:	
Representative Name:	
Mailing Address:	
City, State Zip:	
Telephone:	

[FIRM] Representative Information	
Company:	
Representative Name:	
Mailing Address:	
City, State Zip:	
Telephone:	

Under penalties of perjury, I declare that I have examined this allocation, including accompanying documents, and to the best of my knowledge and belief, the facts presented in support of this allocation are true, correct, and complete.

**Agreed to and Accepted:**

\_\_\_\_\_  
Governmental Representative

\_\_\_\_\_  
Date

\_\_\_\_\_  
[FIRM] Representative

\_\_\_\_\_  
Date



### Designers of NFP Healthcare Buildings:

- Current year:
  - Other Deductions with attachment
- Prior year:
  - Amended returns for open tax years
- An allocation letter is always required



# WHO IS A DESIGNER?

## *Designer of Government-Owned Buildings.*

“...A designer is a person that creates the technical specifications for installation of energy efficient commercial building property...”

“...A designer may include, for example, an architect, engineer, contractor, environmental consultant or energy services provider who creates the technical specifications...”

“...A person that merely installs, repairs, or maintains the property is not a designer.”



# 179D – CASE STUDY – NON-PROFIT OWNED (IRA)



## Healthcare Facility - Renovation:

### Building Highlights:

- Heating: 90 AFUE Boiler
- Cooling: 0.5 kW/ton IPLV Chiller
- Lighting: LED fixtures and daylighting sensors

Results: The entire 325,000 SF building will qualify for a \$5.36/SF deduction.  
\$1,742,000 deduction for the designer.



## WHERE TO DISCOVER



Renewables



Decarbonization



Energy Efficiency



# STACKING

*Renewables, Energy Efficiency, Decarbonization*





# STACKING INCENTIVES

## Energy Building Deduction

- Energy efficiency in lighting, envelope, HVAC
- Up to \$5/square foot deduction
- Falls under Section 179D of the tax code



## Clean Energy Investment Credit

- Investment in energy property
- Up to 6% or 30% plus 10% domestic bonus
- Direct pay for exempt organizations
- Falls under Section 48 of the tax code



## Utility Sales Tax Exemption

- Reduce or entirely exempt sales tax on electricity and natural gas purchases
- Oklahoma and Texas
- Senior Living





**WHAT WILL \$1.7 TRILLION DO?**

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**REWARD BEHAVIOR**

**CHANGE BEHAVIOR**



# REWARD BEHAVIOR

- Behavioral Health Facility was placed-into-service on January 15, 2023
- Thermal Energy Storage



\$420,000 direct pay



\$308,750 deduction



# THANK YOU



**Mark Rogers**

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**Tyler Bernier**

[tbernier@eidebailly.com](mailto:tbernier@eidebailly.com)

### **MISCONCEPTION #1: NOT ACHIEVING PREVAILING WAGE KILLS THE BONUS INCENTIVE**

FACT: Safe harbors and regulations do exist that help companies and organizations achieve the bonus incentive on their energy efficient and renewable construction projects aside from prevailing wage.

### **MISCONCEPTION #2: THERE IS NO DIRECT INCENTIVE FOR NFP HEALTHCARE, ONLY THEIR DESIGNER**

FACT: Exempt organizations are incentivized for renewables through direct pay which is a “briefcase of cash” awarded after the renewable is placed into service.

### **MISCONCEPTION #3: THERE IS NO RISK TO THE NFP HEALTHCARE IN ALLOCATING THE ENERGY EFFICIENT DEDUCTION**

FACT: The exempt organization allocates the energy efficient deduction (179D) at their sole discretion and under penalties of perjury. The exempt organization can allocate to multiple designers if they choose.





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