As my colleagues Katie Segal and Ted Lamm have covered here and here, last week our team at CLEE released an analysis detailing how San Francisco can fund its ambitious Climate Action Plan. Katie provided an overview of the city's Climate Action Plan (CAP), describing how San Francisco will need to secure tens of billions of dollars over the coming decades to deploy the emissions reduction strategy set forth in the CAP. Ted's post explained how a city can use bonds, taxes, fees, or other financing mechanisms to raise municipal revenue for investments in decarbonization.

While cities may be the front lines of climate action, the federal government and the state of California have committed historic levels of support during the past two years. CLEE's analysis offers strategies to support cities' receipt of these funds by both identifying and framing what state and federal grant opportunities are applicable to local government and by suggesting methods to build internal capacity to win and successfully implement additional funding. Sufficient staffing for grant proposals, a well-structured revenue and spending plan to identify opportunities, and a robust equity lens to ensure funds are meeting the needs of historically disenfranchised communities–all discussed in our report–will be key to success in obtaining and using federal and state funds. In this post, I will review just a sample of the climate action funding opportunities in these recent federal legislation and California's state budget developments.

Infrastructure Investment and Jobs Act

In November 2021, President Biden signed the Infrastructure Investment and Jobs Act ("IIJA", also referred to as the Bipartisan Infrastructure Law). The IIJA includes billions of grant dollars for electric vehicle charging infrastructure, public transportation, congestion mitigation, and other investments through creation of new programs or increased funding for existing programs. Specific programs within the IIJA will provide new funding for local governments focusing on reducing emissions from the transportation sector, including $89.9 billion in guaranteed funding for public transit and $7.5 billion to build out a national network of electric vehicle chargers, among other programs.

Some IIJA funds will bolster existing programs that can help cities address climate change. Some of these program funds are administered through formula grants, which allocate funds to states according to a predetermined formula (using factors such as population). Just based on formula grants, California is slated to receive $10.3 billion to improve public transportation options and approximately $384 million for electric vehicle and charging infrastructure deployment over the next five years. The state will also be eligible for competitive grants to provide additional electric vehicle charging funds.

The Energy Efficiency and Conservation Block Grant is an example of competitive programs that assist local governments, states and territories, and tribal governments with implementing fossil fuel emissions reduction strategies that enhance energy efficiency in the transportation or building sector. In San Francisco, over 40 percent of the city's emissions come from buildings. City leaders can look to these types of federal funding opportunities to achieve the Climate Action Plan's strategy to fully transition buildings away from natural gas by installing efficient electric technologies such as heat pumps that run on clean electricity. For example, leaders can apply the federal Block Grant to bolster "targeted technical assistance for BIPOC and low-income owners and tenants" (CAP Action BO-2.9) by providing funds for incentives, rebates, and public financing options.

For an example of how formula grant programs operate, let's examine the Surface Transportation Block Grant Program. It is an existing program that allocates money to state governments, which then direct the funds to eligible recipients for highway, bridge, and tunnel projects on any public road, as well as pedestrian and bicycle infrastructure or transportation capital projects. As defined by the law, states must direct 55 percent of Surface Transportation Block Grant funds to cities with populations larger than 200,000, while 45 percent of the funds may be directed to any region of the state. Formula grants may offer more certainty than competitive grant programs, but available funding can still vary in the long term as conditions change (e.g., population growth or decline).

Inflation Reduction Act

The Inflation Reduction Act ("IRA") was signed into law in August 2022, and is widely recognized as the biggest federal legislative effort to curb greenhouse gas emissions in history. Portions of the legislation identify programs that apply directly to municipal governments, while other programs will allocate funds to states for administration. The IRA also includes several direct-to-consumer tax credits and grants for transportation decarbonization and distributed energy generation, which will help decarbonize those sectors at the local level if implementation and outreach is effective. To address building decarbonization, the IRA allocates funds for a consumer rebate program for electric heat pumps, heat pump water heaters, stoves, and clothes dryers, and for non-appliance home electrical system upgrades.

Local governments with municipal utilities are now eligible to benefit from clean energy tax credits within the IRA. Most notably, Section 13801, which adds a new provision to the tax code, allows municipalities and municipal utilities to directly access tax credits and pass on 100 percent of cost savings to customers. This can assist municipalities and municipal utilities with increasing investments in clean energy generation and purchasing clean

energy assets. The IRA also includes a $27 billion national green bank program, with $7 billion allocated for states and municipalities to invest in projects that enable low-income and economically, socially, and environmentally disadvantaged communities to deploy zero-emissions technologies.

These funds could directly support one of the recommendations made in our report. To achieve San Francisco's goal of phasing out gas infrastructure in all buildings, the city could create a municipal green bank specifically targeted at building decarbonization and designed to leverage federal and state funding. A green bank can offer direct loans to building owners or credit enhancement to pre-approved lenders or contractors, accelerating private building decarbonization investments and aligning with Climate Action Plan policies that require retrofits at the time of property transfer. States like Connecticut and Michigan, as well as Montgomery County, Maryland and Washington, DC, have successfully piloted green banks that have leveraged private capital and facilitated home energy upgrades.

California State Climate Investments

At the state level, supported by an unprecedented $97.5 billion surplus, California's 2022-2023 State Budget included what Gov. Newsom referred to as the California Climate Commitment, which will invest $54 billion to address climate change by deploying clean energy generation projects, accelerating zero-emission vehicles and charging infrastructure, decarbonizing buildings, investing in sustainable communities, and supporting a clean energy workforce.

Local governments already participate in the vast majority of California's climate programs. Most of the state programs are competitive grant funds, which require local governments to apply for funding. Many of the programs, such as the Affordable Housing and Sustainable Communities (AHSC) or Transformative Climate Communities (TCC) programs, are aimed at helping local governments achieve housing, active transportation, and climate action plan goals. Programs like TCC provide a guide for some of the equity recommendations in our report, such as establishing participatory budgeting for a portion of total climate investments. The City of Fresno successfully used a participatory budgeting process in developing its application, conducting five community steering committee meetings on the way to winning $66 million in funding.

Municipal governments can also participate in a variety of financing and loan programs through the California Infrastructure and Economic Development Bank (IBank) or State Treasurer's Office. The IBank provides direct public financing for local government building

energy efficiency investments through the Statewide Energy Efficiency Program (SWEEP), loans for capital investments including street, transit, and energy projects through the Infrastructure State Revolving Fund (ISRF), and flexible financing to attract capital through the Climate Catalyst Fund (funds are currently limited to wildfire management and agriculture projects but may expand in future years).

Conclusion

Local governments cannot succeed in addressing climate change solely by looking to federal and state sources, but these programs will provide some of the most significant funding for new climate investments. Cities that have thoughtful, tactical, and comprehensive climate action funding and spending strategies will be able to leverage these federal and state funding opportunities to accelerate reductions. By planning a diverse and creative array of funding and financing mechanisms to ensure their climate action plans are implemented effectively, cities can maximize their ability to capitalize on federal and state support.

For more information about *Funding San Francisco Climate Action*, visit here.

Author's Note: As our team looked to compile the new state and federal climate programs applicable to local governments as a part of our analysis for San Francisco, we were helped by existing scholarship. Here are a sample of existing resources:

- The Center for American Progress did a deep dive on the climate impacts of the IIJA
- Evergreen Action provided an explainer of the climate portions of the IRA
- Amy Turner at the Sabin Center for Climate Change Law wrote a helpful overview of how the IRA impacts cities.