As my colleague Katie Segal wrote earlier this week, our team at CLEE recently released a report detailing how San Francisco can fund its ambitious Climate Action Plan. As more local governments in California and around the country develop robust climate action plans–and as federal action to reduce emissions remains unpredictable as ever–it is increasingly clear that local strategies will be a key driver of decarbonization and resilience.

However, these local approaches to implementing climate action highlight the need for local, sustained approaches to paying for it, including strategies to raise revenue directly and to secure federal climate and infrastructure funds. The question of how to raise and plan multiple decades and billions of dollars of revenue drove our inquiry for San Francisco; the question of how to do it equitably shaped our results.

San Francisco voters took a step in this direction last week by approving extension of the existing transportation sales tax (Prop. L), along with a residential unit vacancy tax (Prop. M) and a measure to limit vehicle traffic in Golden Gate Park (Prop. J)–while providing 65% support for a state tax on high incomes to fund electric vehicle investments (Prop. 30), which voters statewide rejected.

Local governments cannot expect to fund all of their climate actions through local sources alone, but they need to develop revenue strategies to raise and allocate local, state, federal, private, and philanthropic dollars in a structure tailored to their particular climate plans and timelines. They must do this while minimizing burdens on under-resourced communities, maximizing flexibility to adapt investments, and aligning with myriad other local needs.

Although revenue raised from local residents and businesses can support only a fraction of the total investment needed, it is typically the source most adaptable and responsive to local priorities. Local leaders should first conduct a funding analysis focused on the revenue sources available to them under state and local law and current revenue streams, especially those with the capacity for expansion. They should then select best-fit mechanisms based on alignment between revenue options, residents' highest-priority climate investments, and local equity considerations, among many other factors. Core options include:

- **Bonds:** Bonds use predictable future revenue streams, such as property taxes or utility payments, to raise near-term revenue for infrastructure investments, often in the hundreds of millions of dollars. Property tax-backed general obligation (GO) bonds are one of the most common strategies to fund new

investments in public transportation, affordable housing, parks, and more, especially in California where instituting new taxes is legally challenging. As such, bonds will be central to many local climate strategies, in particular for large-scale transit expansions and resilience infrastructure. And, since GO bonds rely on property taxes, they are relatively equitable when compared to sales and utility taxes that hit lower-income residents harder. However, local bond capacity is not unlimited and is often subject to voter approval, so leaders should prioritize projects with clear and immediate public benefits.

- **Taxes:** Taxes are perhaps the most straightforward local revenue strategy, but aside from property taxes they risk regressivity unless they are carefully tailored. In addition, Proposition 13 requires supermajority public approval of new taxes that are targeted to specific programs (i.e., “special” taxes) and California cities’ ability to impose taxes on income (which could be more progressive than sales or payroll taxes) is limited. Certain targeted taxes–for example, on large commercial buildings’ carbon emissions or on vacant properties–can both raise revenue equitably and align with broader climate goals.
- **Fees:** Fees on activities related to greenhouse gas emissions (such as electric utilities, vehicle parking, and property development) can raise revenue for climate investment. In many California cities, such fees are already heavily employed for other services, so additional capacity may be limited. In addition, leaders should be careful to ensure that new fees do not disproportionately burden lower-income residents or make new development prohibitively expensive.
- **Financing and assessment districts:** Mechanisms like Community Facilities Districts and Enhanced Infrastructure Financing Districts are popular strategies in California to fund discrete public improvements in particular areas or communities, somewhat similar to small-scale bond measures. While the state laws creating these mechanisms are not specifically designed for climate investments, they are fairly flexible, and they can be applied citywide (although at that scale they may have few benefits relative to a GO bond). Since these measures are designed for investments that benefit particular neighborhoods or communities, they may be best suited to locally specific climate investments like coastal protections, or for wealthier communities willing to self-fund portions of a plan.
- **Vehicle pricing:** Congestion pricing is a proven way to raise tens of millions of dollars annually while disincentivizing emitting activity. London, Singapore, and Stockholm employ it, New York is finalizing a plan for it, and San Francisco

has studied it for over a decade. While it's a clear win-win on emissions, congestion pricing would likely require legislative authorization at the state level in California; needs careful policy design to , and raises major political and economic development questions throughout the car-dependent US, particularly with downtown business districts still recovering from COVID downturns. Parking pricing–charging for the use of public curb space to store private vehicles, something cities already do in metered zones and residential parking permit areas–is another high-yield way to raise tens of millions of dollars while disincentivizing emitting activities, although it brings similar political challenges.

- **Other strategies:** Local governments can also consider measures like municipal green banks and revolving loan funds to attract private capital for building decarbonization investments; California Environmental Quality Act mitigation to fund transit investments; revenue-generating public EV charging; philanthropic and business grants for implementation and workforce development; and carbon credit generation, among many other strategies.

Developing a robust and diverse mix of local revenues will be vital to achieve near-term successes in climate action investment. As local leaders craft proposals, they will need to account for key considerations such as the size, duration, volatility, and flexibility of revenue streams as well as each stream's political viability and its amenability to residents' highest-priority projects. At the same time, leaders should identify what areas of investment are more suitable to funding via large pots of regional, state, and federal money, and develop comprehensive revenue and investment plans that can make the case for these grant programs. The next post in this series will cover state and federal opportunities in detail.