State & Local Energy Climate Coordination (SLECC)

Meeting #6 | June 25, 2024

In-person | Palm Springs

Quarterly coordination meetings between State and local leaders across California

CALIFORNIA CLIMATE & ENERGY COLLABORATIVE CCEC

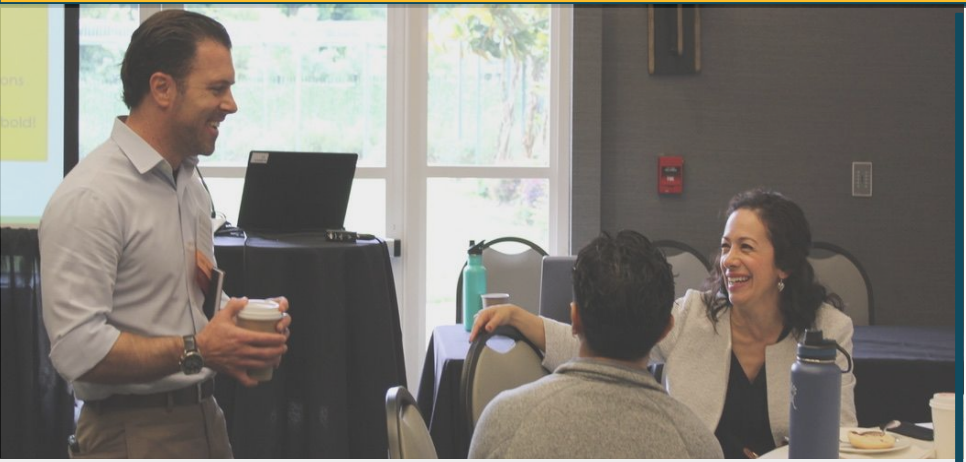
CALIFORNIA STRATEGIC GROWTH COUNCIL

STATE OF CALIFORNIA ENERGY COMMISSION

CALIFORNIA AIR RESOURCES BOARD

Meeting Guide

Welcome to SLECC!



Purpose

SLECC will serve as a **statewide communication and ideation hub to help State and local leaders improve coordinated efforts** to more rapidly unlock the unique potential of California regions and communities to address energy and climate goals.

SLECC will **identify priority needs and co-create operational solutions to advance place-based energy and climate action**.

TODAY'S AGENDA

- **Welcome, Introductions, Review of SLECC Year 1**
- **Featured Discussion Topics**
  - **Getting Clear on Local Roles** (activity)
  - **Local Input on the State's Adaptation Strategy**
    - Mindy Craig (BluePoint Planning) and Ben McMahan on behalf of OPR & CNRA
  - **Barriers and Solutions for Accessing Tax Credits for Local Energy Projects**
    - Sean Kennedy, *Strategic Growth Council*
    - Yakov Feygin, *Center for Public Enterprise*
    - Minh Le, *Los Angeles County*
- **Next Steps and Closing**

Review of SLECC Year 1

We set out to: *Build deeper understanding and stronger collaborative relationships between State and local agencies to identify barriers and streamline/improve delivery of energy and climate information, resources, and services.*

Key Priorities	Progress
Improve and streamline communications and messaging between State and local agencies	6 SLECC meetings + SLECC Partners mtgs and with individual agencies. Actively tracking dozens of State initiatives to identify pathways for progress on SLECC priorities. Coordinating public comment. Sharing State information via 30 LERN meetings, wEEKly, etc. Growing agency contact list. State interagency meetings.
Advance access to flexible recurring funding/assistance for local energy and climate initiatives	Better Funding report outlined reforms and pilots, included in SGC's Priority 3 Work Plan and Catalyst Conference Papers, informing State engagement & assistance programs (e.g. CARB's CPRG, Triennial Investment Plan and Research Plan), tracking legislation on EE
Develop capacity & GHG source data for local climate action	SB 511, analysis of 3rd party tools, Barriers to Local Climate Action Summary Report, requested further analysis in CARB's Research Plan, tracking OPR general plan guidelines
Expand State agency leadership to address local policy needs (e.g. overcoming load constraints, reliability, and interconnection issues; threats to EE budget)	Tracking SB 100 and IEPR, coordination with LGSEC working group and PUC proceedings, joint comments on CERRI, coordination on R-STEP
Achieve coordinated, customer-friendly residential energy/electrification programs, including capital/incentive stacking	Informing and coordinating on CEC IRA and Equitable Building Decarb programs, tracking Solar for All

Review of SLECC Year 1

CCEC's Phased Approach to Better State & Local Coordination

0 Low Engagement and Transparency

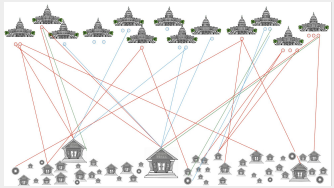
1 Tracking

2 Information Sharing and Shaping

3 Strategic and Streamlined Statewide Coordination

4 Regional Coordination

5 Project Pipeline to Improve Funding Deployment



Local Energy Resources Network

SLECC

Featured Discussion #1

Getting Clear on Local Roles - Why

- ➔ No clear or complete list exists of what local governments can to do help tackle the State's energy and climate challenges, and they are underutilized
- ➔ There are different types of local governments and they have unique capabilities, relationships, and authorities: cities, counties, special districts, and regional consortiums like APCDs, MPOS, Regional Energy Networks (RENs), and CCAs
- ➔ Their needs and roles vary by location and community characteristics: small rural, small urban/suburban, large urban, mixed
- ➔ Roles are shifting, and resources are insufficient to unlock local potential
- ➔ State can't invest in what it doesn't understand

Featured Discussion #1

Getting Clear on Local Roles - Activity

Instructions are in SLECC Meeting Guide

Step 1: Split into three groups by **type of local government** you represent

- City
- County
- Regional organization like APCD, MPO, REN, or CCA

Step 3: Pick a color marker that most reflects the **characteristics** of the community you represent

- Red: Small rural (<25,000)
- Orange: Small urban/suburban (<25,000)
- Blue: Large urban (>25,000)
- Green: Mixed

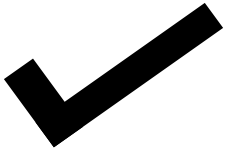
PUBLIC CONSTRUCTION, INSTALLATION, PROCUREMENT
Build community solar
Install solar on public buildings/facilities
Install storage on public buildings/facilities
Install and operate microgrid on public buildings/facilities
Install solar on affordable housing developments
Conduct energy retrofit on municipal buildings
Conduct energy retrofit on schools
Install EV charging (with economic development e.g. station with retail) on public lands
Procure EV Fleet
Replacement of traffic signals and street lighting with energy efficient lighting technologies
Urban greening/open space projects
Develop or join a joint energy procurement program for regional municipalities
Conduct wildfire emission mitigation (e.g. fuels reduction)
Other?
Other?

COMMUNITY PROGRAM IMPLEMENTATION, OUTREACH
Establish or join CCA
Provide direct install or other incentive for low/moderate income home energy improvements (efficiency, electrification, solar, storage)
Provide audits, incentives, and contractor/resident support for home energy improvements (efficiency, electrification, solar, storage)
Provide audits and incentives for commercial energy improvements (efficiency, electrification, solar, storage)
Provide audits and incentives for nonprofit energy improvements (efficiency, electrification, solar, storage)
Provide audits and incentives for schools and colleges (efficiency, electrification, solar, storage)
Develop non-profit or commercial sector microgrids
Development and implementation of programs to conserve energy used in transportation
Administer building permit incentives to encourage deeper retrofits
Conduct workforce development/training for energy/contracting trades and building departments
Provide sequestration/healthy soils incentives and services
Provide incentives for agricultural efficiency
Provide rebates for EV and electric bikes
Provide incentives for public transportation
Compensate and empower equitable community policy engagement
Provide community education on benefits of efficiency, electrification, EV, solar and storage
Other?
Other?

POLICY, PLANNING, LAND USE
Adopt energy efficiency and electrification reach codes
Adopt a net-zero municipal building policy
Adopt solar-ready new construction ordinance
Enforce California Energy Code
Adapt building performance standards for all buildings
Develop or update general plans pertaining to solar and storage
Amend zoning or development codes to enable mixed-use, walkable, and compact infill development (e.g. increasing allowable density)
Simplify permitting requirements for solar and storage
Create a solar overlay zone
Develop benchmarking ordinance
Develop or modify and implement parking policies
Completion of Climate Action Plans
Completion of Climate Adaptation Plans
Participate in regional climate planning
Completion of electrification assessments and planning
Completion of Strategic Energy Plan, including generation opportunities
Completion of plan to manage mobility and reduce VMT
Completion of energy resilience/load capacity plans
Completion of sustainable transportation or smart growth plans
Completion of Active Transportation Plan
Completion of EV transition plan
Assist with forest and wildfire management planning
Amend affordable housing policies and contracts to encourage development of efficient, electrified, and solar-powered aff. housing
Develop plan for urban greening
Policies to preserve natural and working lands

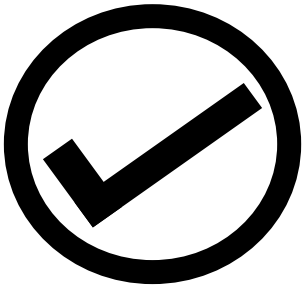
Featured Discussion #1

Getting Clear on Local Roles - Activity



"I am already doing this within my jurisdiction"

"I am already doing this, within my jurisdiction but would benefit from additional state support"



"I am doing this within my jurisdiction and it is working well!"

Leave "blank" if not currently doing within your jurisdiction

Featured Discussion #1

Getting Clear on Local Roles - Discussion and Next Steps

Report out and discussion on themes and meaning

- ➔ What trends or take-aways do you see in the groups?
- ➔ What are local governments most well-equipped to do?
- ➔ In 2024, what new demands are requiring local governments to take on expanded roles in energy and climate
- ➔ Where are capacity and resources most needed and most lacking?

Next steps

- Write up as a resource, use it to inform future engagement and needs assessment

Featured Discussion #2

Local Input on the State's Adaptation Strategy

Climate Services Manager

California Office of Planning and Research

Ben McMahan

Owner

BluePoint Planning

Mindy Craig

CALIFORNIA CLIMATE ADAPTATION STRATEGY

Photo credit: State Parks

CALIFORNIA CLIMATE ADAPTATION STRATEGY

What is the California Climate Adaptation Strategy?

Outlines the State's key climate resilience priorities

Includes specific and measurable actions

Serves as a framework for collective efforts

Updated every 3 years

CALIFORNIA CLIMATE ADAPTATION STRATEGY

Who is it for?

Regional and Local Government Practitioners

Community Members

State Agencies

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2024 Adaptation Strategy

Overview of 6 Priority Areas

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What is new in the 2024 draft Strategy?

- Expansion and enhancements of new metrics and timing for actions
- Better integration of equity through all priorities
- Range of procedural improvements reflecting progress and new piloted approaches
- Integration of key actions from California's latest climate adaption plans and initiatives
- Extreme heat impacts and needs on Californians.

6 Organizing Priorities

Priority 1: Strengthen Protections for Climate Vulnerable Communities	Priority 2: Bolster Public Health and Safety to Protect Against Increasing Climate Risks	Priority 3: Build a Climate Resilient Economy
Priority 4: Accelerate Nature-Based Climate Solutions & Strengthen Climate Resilience of Natural Systems	Priority 5: Make Decisions Based on the Best Available Climate Science	Priority 6: Partner and Collaborate to Leverage Resources

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Priority 1: Strengthen Protections for Climate Vulnerable Communities

- A climate resilient “California for All” requires focused support for communities most vulnerable
- Includes:
  - Procedural equity: Vulnerable communities are empowered to influence planning and investment decisions
  - Distributional equity: Vulnerable communities are prioritized for adaption action to make up for past under-investment

Focus on supporting low-income, rural communities, and tribal nations

Address residential homes related to indoor heat, air quality, affordable AC

Wildfire and Home Hardening Retrofits

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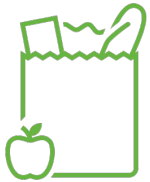
Priority 2: Bolster Public Health and Safety to Protect Against Increasing Climate Risks

- Climate-related damage to health can be immediate and acute, as well as sustaining and long-term
- Climate change is a **threat multiplier**, worsening existing health inequities
- Climate-driven events also have impacts on:



Food supply and security

Water supply and sanitation

***Environmental hazards**, such as harmful algal blooms*

…and more

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Priority 3: Build a Climate Resilient Economy

- Our economy relies on a safe and reliable infrastructure
- We are improving our understanding of economic impacts of climate change
- Preserving and creating high road jobs in a clean, resilient, and inclusive economy will **bolster quality of life** and **support economic mobility**
- Proactive adaptation and resilience measures are sound **economic and fiscal investments**

Every $1 invested in proactive efforts to reduce climate risk avoids at least $6 in future costs

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Priority 4: Accelerate Nature-Based Climate Solutions & Strengthen Climate Resilience of Natural System

- **Climate smart management** of our natural and working lands – forests, farms, wetlands, coasts, deserts, community greenspaces, and more
- Accelerated use of **nature-based solutions** that deliver on our climate change goals and other critical priorities
- Emphasizes our commitment to advancing multi-benefit, nature-based solutions

Improving public health and safety, securing our food and water supplies, and increasing equity

Integrate nature-based solutions into the transportation system

CALIFORNIA CLIMATE ADAPTATION STRATEGY

Priority 5: Make Decisions Based on the Best Available Climate Science

- Evolving **scientific understanding** must be basis for our efforts to strengthen climate resilience and support leadership in climate action
- Partnership-based research models will:
  - Improve understanding of and response to **climate change**
  - Allow us to better understand the location, timing, and extent of **climate impacts**
  - Support investments and policies that reduce future **climate risk**

For example, seeking and elevating Traditional Ecological Knowledge can augment traditional research methods

Quantify impact of increased temperatures on electric grid.

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Priority 6: Partner and Collaborate to Leverage Resources

- **Partnerships**, **coordination**, and **collaboration** in our efforts to build climate resilience are essential
- All entities hold a piece of the puzzle and must work together to leverage each other's strengths and actions
- Collaborative efforts can anchor equity by **welcoming perspectives** of vulnerable communities to shape planning, projects, and investments

Tribal, local, regional and state governments, to community-based organizations and the private sector

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Metrics & Tracking

How do we ensure success?

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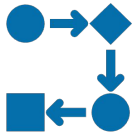
Success Metrics

Includes:
- Specific Timeframe
- Agency/Agencies

As state entities center equity and embed processes and partnerships, some success metrics are “Ongoing” or "Annual”



Shift these metrics to focus on **outcomes (“success”)** and not process or outputs

CALIFORNIA CLIMATE ADAPTATION STRATEGY

Website Updates

Creating a Better Tool for Users

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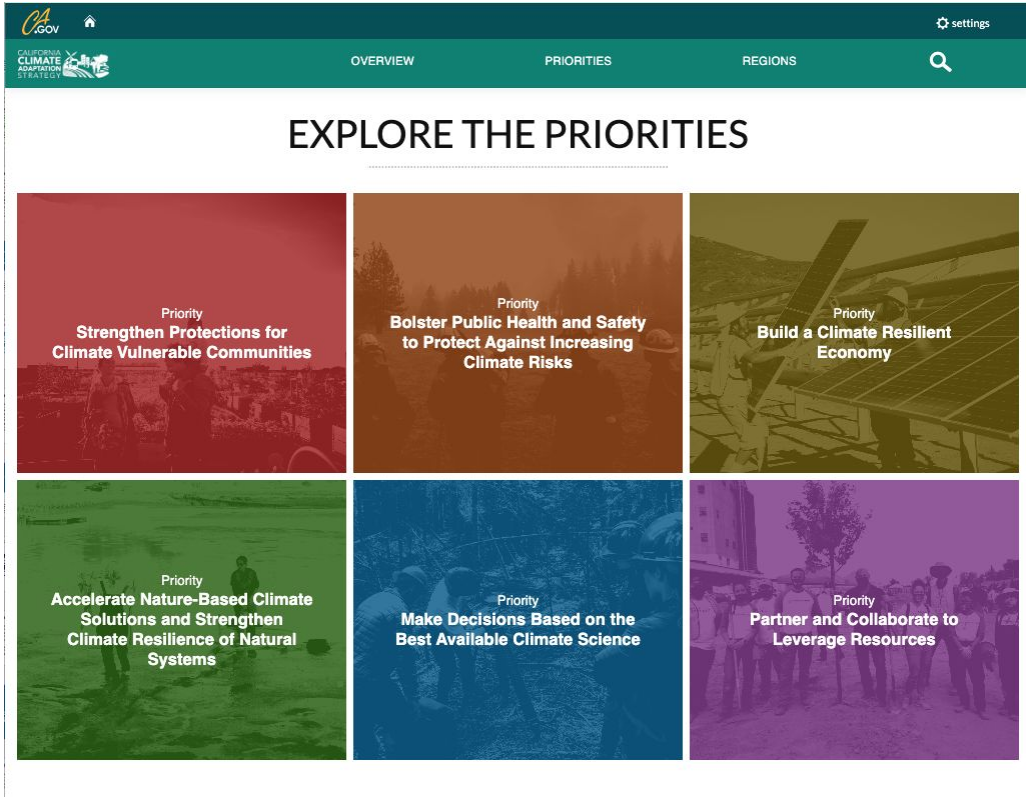

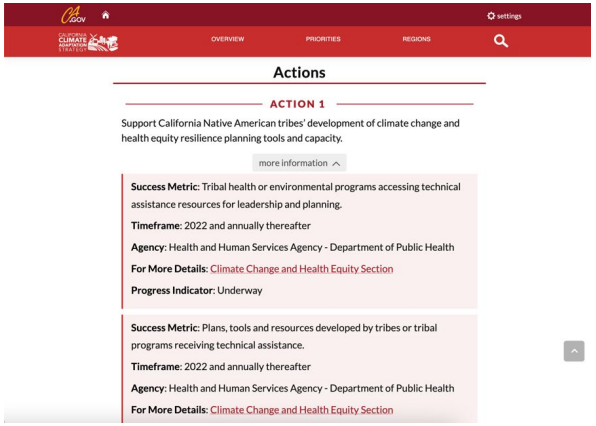

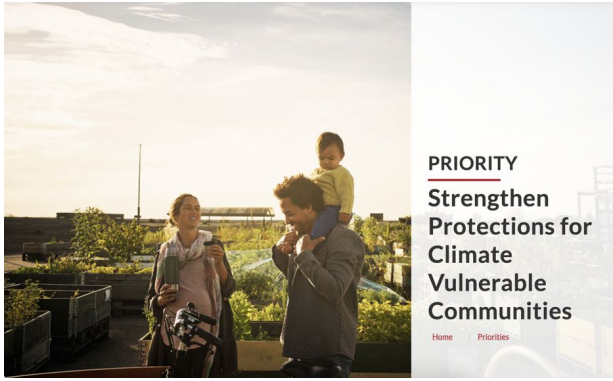

Access the draft Strategy Update and other information at www.climateresilience.ca.gov

Update Schedule

CALIFORNIA CLIMATE ADAPTATION STRATEGY

Public Comment

To provide feedback:

Share your feedback on Consider.It: https://cnra.consider.it

Email comments to climateresilience@resources.ca.gov

CALIFORNIA CLIMATE ADAPTATION STRATEGY

Questions?

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Featured Discussion #3

Barriers and Solutions for Accessing Tax Credits for Local Energy Projects

Deputy Director, Energy Portfolio
Strategic Growth Council
Sean Kennedy

Director of Public Finance
Center for Public Enterprise
Yakov Feygin

General Manager, Internal Services
Los Angeles County
Minh Le

Featured Discussion #3

Barriers and Solutions for Accessing Tax Credits for Local Energy Projects

Tax Credits for Local Energy Projects

- The Inflation Reduction Act (IRA) makes the largest investment in clean energy in United States history, and much of that investment is delivered via tax incentives.

- With “elective pay” (often informally called “direct pay”), tax-exempt and governmental entities that do not owe Federal income taxes – including local governments – can now receive a payment equal to the full value of tax credits for building qualifying clean energy projects or making qualifying investments.

Featured Discussion #3

Barriers and Solutions for Accessing Tax Credits for Local Energy Projects

Elective Pay: Opportunities & Questions

- Applicable entities can use elective pay for 12 of the Inflation Reduction Act's tax credits, including:
  - generating clean electricity through solar, wind, and battery storage projects
  - community solar projects that bring clean energy to neighborhood families
  - electric vehicle (EV) charging infrastructure
  - purchasing clean vehicles for state or city vehicle fleets
- Questions
  - Who and what is eligible?
  - How to apply for and ultimately receive the credit?
  - Requirements and bonuses
  - How to address the gap in funding from construction to operation?
  - *What is the role of the State in supporting access to direct pay opportunities?*

Elective Pay: Developing Public Energy through the IRA

Yakov Feygin,
Center for Public Enterprise
yakov.feygin@publicenterprise.org

15th Annual California Climate and Energy Collaborative Forum
Palm Springs, CA
June 25, 2024

Center for Public Enterprise

Elective Pay Basics

- Public entities and nonprofit organizations can take advantage of renewable energy, clean vehicle, and other eligible tax credits, as if the entity did have a tax liability
- Payment comes from the IRS in the form of a direct cash payment
- Grant-like—but not a grant!
  - has unique advantages and disadvantages as a part of a project's financial structure
- Attached to specific projects and requires ownership of assets

Eligible Credits

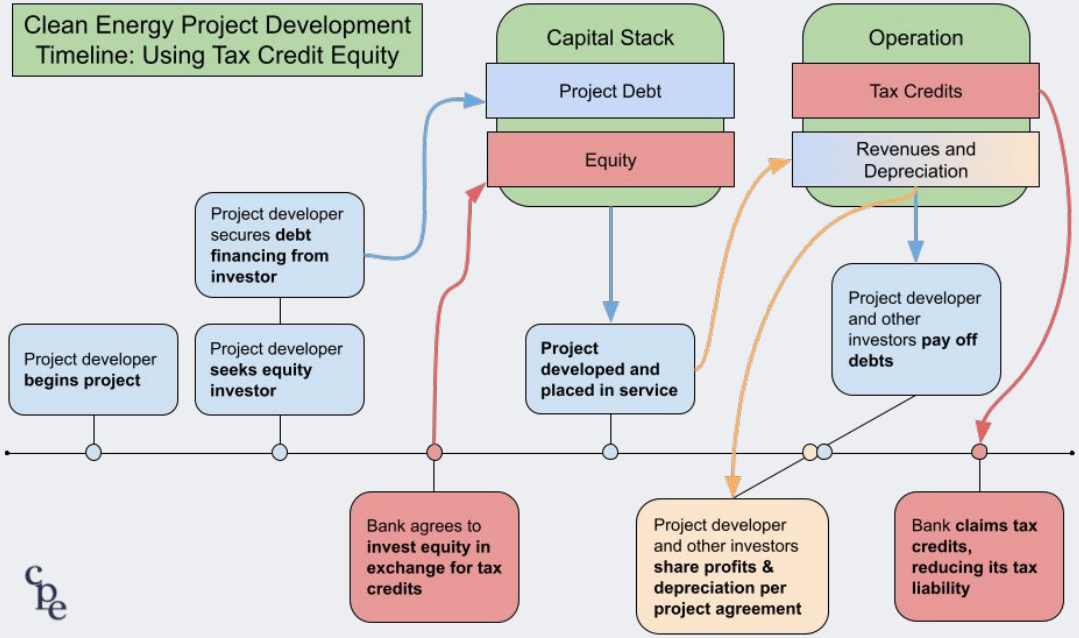
- Energy Credit (48)
- Clean Electricity Investment Credit (48E),
- Renewable Electricity Production Credit (45)
- Clean Electricity Production Credit (45Y)
- Commercial Clean Vehicle Credit (45W)
- Zero-emission Nuclear Power Production Credit (45U)
- Advanced Manufacturing Production Credit (45X)*
- Clean Hydrogen Production Credit (45V)*
- Clean Fuel Production Credit (45Z)
- Carbon Dioxide Sequestration Credit (45Q)*
- Credit for Alternative Fuel Vehicle Refueling / Recharging Property (30C)
- Qualifying Advanced Energy Project Credit (48C)

**Credits eligible for elective pay selection by* private *entities*

Tax Credits Before The IRA

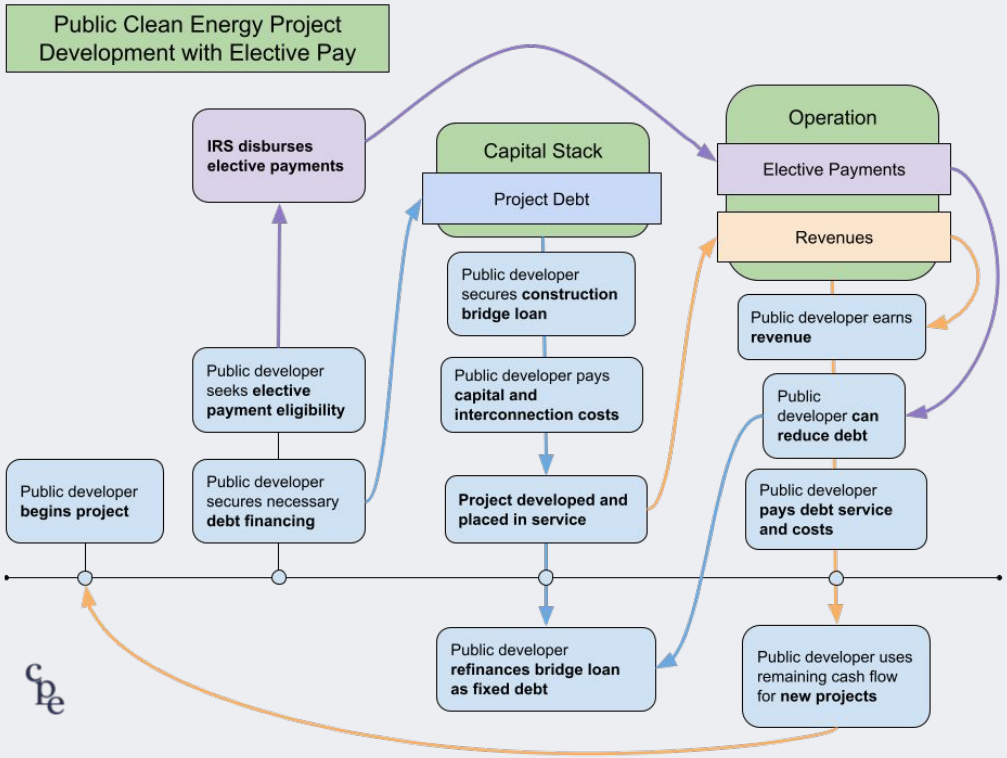
Before IRA:

- Main energy credits – Production and Investment Tax Credits (PTC+ ITC) for Wind and Solar
- Requires “tax equity structures”
- No credits for tax exempts



Tax Credits After the IRA

- ITC and PTC technologies expanded including storage, nuclear, geothermal, in addition to wind and solar
- Clean vehicle tax credit expanded
- Advanced manufacturing, Industrial Decarbonization, Hydrogen
- Transferability provisions
- Elective pay for tax-exempt entities (nonprofits, state instrumentalities)



Center for Public Enterprise

Elective Pay Amounts, Bonuses And Penalties

- 30% of direct project costs base
- LIC Located 10% Adder (ITC/PTC)
- Qualified low income residential project or qualified low income economic benefit 20% Adder (ITC/PTC)
- Energy Community Adder 10% Adder (ITC/PTC)
- Domestic content requirement in addition to the adder bonus (-10% 2024, -15 2025, eliminated after with safe harbors)
- No accelerated depreciation bonuses
- Up to 15% tax exempt bond penalty

Elective Pay Basics

Planning

- Determine community needs
- Siting and pre-development
- Financing
- Contracting

Development

- Material Acquisition
- Construction
- Interconnection

Pre-Registration

- File for a pre-registration number the project is planned to go into operation into with the IRS
- Each energy property must have its own registration number
- Once for ITC, every qualifying year for PTC

Filing

- Select elective pay using form 990-T and 3800
- Submit to IRS
- If you did not submit forms before you can go by calendar or fiscal year

Payment

- Receive check from the IRS

Elective Pay Barriers

- Bridge/Construction financing
  - Solution: green bank-supported products to facilitate capital market access

- Large-Volume Financing
  - Solution: GGRF, LPO-SEFI, USDA (RESP, PACE), GGRF/Green Banks, Capital Markets

- Administration
  - Contracting, tax credit calculation, selection, filing
  - Technical Assistance including CPE and partners, state support

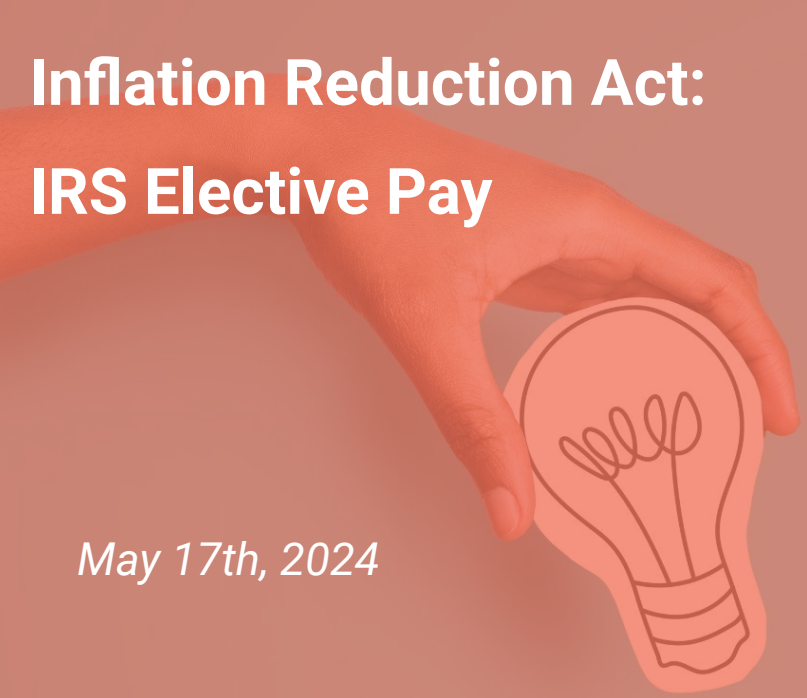
Keep in Mind:

- Elective pay cannot be more than the total cost of the project
- Elective pay can be paired with other federal programs, including grants and loans
  - subject to the above restriction
- Elective pay guidance on domestic content forthcoming
- Tax credit chaining may be possible
- Co-development structures with non-elective pay entities are possible but heavily restricted

How CPE Can Help

- Resources
  - Elective Pay Model (link)
  - SEFI Program Resources
  - GGRF Program Resources
- Project Pipeline Design
  - Capital Stack and Financing Support
  - Specialized contracts, MOUs, or other agreements available upon request

Inflation Reduction Act:
IRS Elective Pay



May 17th, 2024

What is Elective Pay? (aka “Direct Pay”)

- With Direct Pay, tax-exempt and governmental entities that do not owe federal income taxes are, for the first time, able to **receive a payment equal to the full value of tax credits for building qualifying clean energy projects or making qualifying investments**
- Unlike competitive grant and loan programs, in which applicants may not receive an award, elective pay allows entities to get their payment if they meet the requirements for both elective pay and the underlying tax credit.
- Public agencies can use elective pay for 12 qualifying clean energy tax credits.

Elective Pay Eligible Tax Credits

- Energy Generation & Carbon Capture
- Manufacturing
- Vehicles
- Fuels

- **Production Tax Credit for Electricity from Renewables**
- **Clean Electricity Production**
- **Investment Tax Credit for Energy Property**
- **Clean Electricity Investment**
- **Low Income Communities Bonus***
- **Carbon Oxide Sequestration**
- **Zero Emission Nuclear Power Production**

- **Advanced Energy Project***
- **Advanced Manufacturing Production**
- **Qualified Commercial Clean Vehicles**
- **Alternative Fuel Vehicle Refueling Property**
- **Clean Hydrogen Production**
- **Clean Fuel Production**

* application required

Benefits of Elective Pay

- Grants, incentives, and loans can be used in conjunction with direct pay on qualified projects
- Elective Pay does not require applicable entities to compete for a limited pool of funding
- If a qualified project is funded by a tax-free grant or forgivable loan, entities would get the same value of eligible tax credit as if the investment were financed with their own funds, i.e., the amount of the tax-free grant and/or forgivable loan is INCLUDED in the total project cost for purposes of calculating the tax credit amount
- Elective pay credits can be accessed through a simple IRS pre-filing registration process
- Potential bonuses on tax credits
    - Meeting prevailing wage & apprenticeship requirements
    - Using products manufactured in the United States (domestic content)
    - Completing projects in a Historical Energy Community or low income communities

How to Access Elective Pay Funds

1. Review available energy tax credits to confirm which credit will apply to your proposed project
2. Identify and pursue the qualifying project or activity
3. Complete your project and place it into service
4. Determine your tax year (based on your respective fiscal year if you file a tax return, and the date you completed the project). If you do not currently file a tax return, your tax year is the calendar year in which the project was completed
5. Complete pre-filing registration with the IRS after qualifying for the underlying credit
    a. Each facility will receive an independent registration number
6. File your tax return by the due date and make a valid direct pay election
7. include registration number(s) on tax return
8. Receive payment after the return has been processed

Transferring Elective Pay to a Contractor/Third Party

1. Consider who owns the asset; only the asset owner is eligible for either the tax credit or elective pay
    a. If a local government owns the asset, the tax credit goes to the local government
    b. If a third-party vendor owns the asset, the tax credit goes to the vendor
2. If no out of pocket costs are incurred for the project (tax-free grants and forgivable loans are considered out of pocket costs), neither entity is eligible for the credit or elective pay

Contacts

County of Los Angeles
Internal Services Department (ISD)
Office of Energy & Environmental Service (EES)

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Q&A, Discussion, & Takeaways

Barriers and Solutions for Accessing Tax Credits for Local Energy Projects

Audience discussion

- Have you tried accessing Direct Pay for your local energy projects?
  - If not, what is keeping you from leveraging these dollars?
  - If so, what challenges have you experienced?
- What help would you need to overcome these challenges?

Reminders: be brief, be curious, be respectful, & be constructive

What major barriers is your organization experiencing? Please suggest a topic for a an upcoming SLECC!

Contact
ahacker@civicwell.org

What's Next?

- Compile notes
- Next meeting date: **September 12, 2024**
  - Will be remote
  - Plan for future year + TBD Topic

Thank you for sharing your insights!