



# CDFFA Update

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## The Inflation Reduction Act of 2022: What You Need to Know

Wednesday, August 31, 2022

# The Inflation Reduction Act of 2022: What You Need to Know



## Mitchell Smith

Director, Government & External Affairs  
Council of Development Finance Agencies  
Columbus, OH





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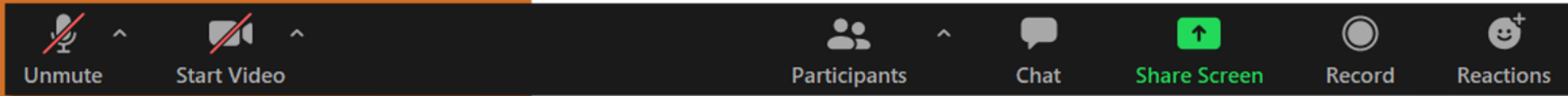
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# Speakers



## **Brian Farnen**

General Counsel  
Connecticut Green Bank



## **Reed Hundt**

Founder & CEO  
Coalition for Green Capital

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# Inflation Reduction Act: An Overview



- 15% minimum corporate tax for companies with profits exceeding \$1B and 1% excise tax on corporate stock buy-backs
- Additional funding for the IRS for taxpayer services and enforcement
- Prescription drug reform for Medicare and Medicaid
- Extension of the Affordable Care Act (Obamacare) through 2025
- \$373B in investments for energy security, climate change, drought resiliency, and environmental justice.

# Department and Agency Appropriations



- Department of Agriculture - \$35B
- Department of Energy - \$31B
- Environmental Protection Agency
- Department of Housing and Urban Affairs
- Federal Highway Administration
- National Fish and Wildlife Service
- National Oceanic and Atmospheric Administration
- Bureau of Indian Affairs
- Bureau of Reclamation

\*All above figures approximate amounts and may not include appropriations not directly related to development finance.

# Department of Agriculture



- \$14B for agricultural conservation investments
- \$1B for loans under the Rural Electrification Act of 1936.
- \$1B for the Rural Energy for America Program
- \$9.7B for USDA Assistance for Rural Electric Cooperatives
- \$500M for biofuel infrastructure and agriculture product market expansion grants
- \$3.1B for Farm Loan Immediate Relief for Borrowers with At-Risk Agricultural Operations
- \$2.25B for state and private forestry conservation programs



# Department of Energy



- \$5B for energy community reinvestment financing, enabling low-carbon reinvestments
  - Secretary of Energy may guarantee up to \$250B in total loans for such projects
- \$2B for costs of direct loans to non-Federal borrowers for electric transmission facilities necessary to national interest
- \$5.8B for advanced industrial facilities deployment
- Secretary may guarantee up to \$20B in total loans for the Tribal Energy Loan Guarantee Program

# Environmental Protection Agency (EPA)



- \$2.25B for purchase or installation of zero-emission port equipment or technology
- \$27B for the Greenhouse Gas Reduction Fund
- \$1B for grant fund program for “Clean Heavy Duty Vehicles”
- \$5B for Climate Pollution Reduction Grants
- \$2.8B for Environmental and Climate Justice Block Grants

# Other Federal Departments & Agencies



- **Department of Housing and Urban Affairs**
  - \$1B for efficiency and resilience upgrades to affordable housing
- **Federal Highway Administration**
  - \$1.9B for the Neighborhood Access and Equity Grant Program
    - Additional \$1.3B specifically for economically disadvantaged communities
  - \$2B for Low-Carbon Transportation Materials Grants
- **National Fish and Wildlife Service**
  - \$125M to address weather events in the National Wildlife Refuge System and State wildlife management areas

# Other Federal Agencies



- **National Oceanic and Atmospheric Administration**
  - \$2.6B for coastal conservation and extreme storm preparation for coastal states, Washington DC, and tribal governments
- **Bureau of Indian Affairs**
  - \$220M for Tribal climate resilience and adaptation programs
  - \$145.5M for providing electricity to unelectrified Tribal homes with zero-emissions energy systems and other improvements
- **Bureau of Reclamation**
  - \$4B for activities to mitigate impacts of drought in reclamation states, with priority given to the Colorado River Basin
  - \$550M for disadvantaged communities that do not have reliable access to domestic water supplies

# National Green Bank



- \$27B for the Greenhouse Gas Reduction Fund
  - \$7B for states, municipalities, tribal governments, and other eligible recipients for grants, loans, or other assistance for low-income and disadvantaged communities to employ zero-emission technologies
  - \$20B in competitive grants to eligible recipients for specified investments



# The Inflation Reduction Act of 2022: What You Need to Know



## Brian Farnen

General Counsel  
Connecticut Green Bank



# Connecticut Green Bank

Sparking the Green Bank Movement

# What is a green bank?



## Green Bank

A green bank is public, quasi-public, or non-profit financial institutions that provide families and businesses with easy and affordable access to the capital they need to deploy clean energy on their homes and buildings



# Connecticut Green Bank

Our focus...



# Green Bank

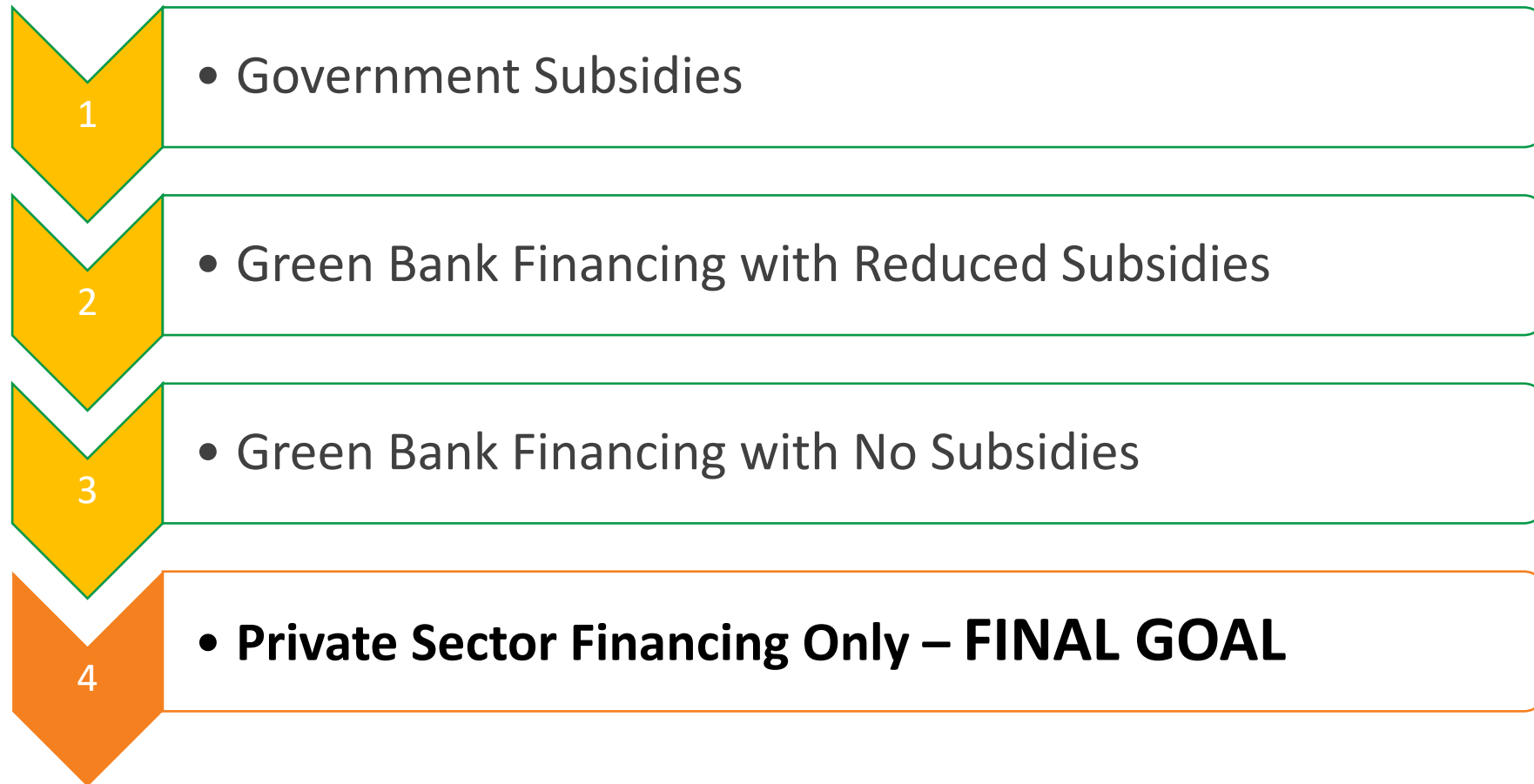
- **leverage private sector capital**
- **create affordable long-term, sustainable financing**
- **energy efficiency and clean energy (solar, hydro, wind)**
- **environmental infrastructure**
- **support residential, commercial, industrial + government sectors**

What Do We Do?



# Green Bank Model

Cheaper, Cleaner and More Reliable Energy

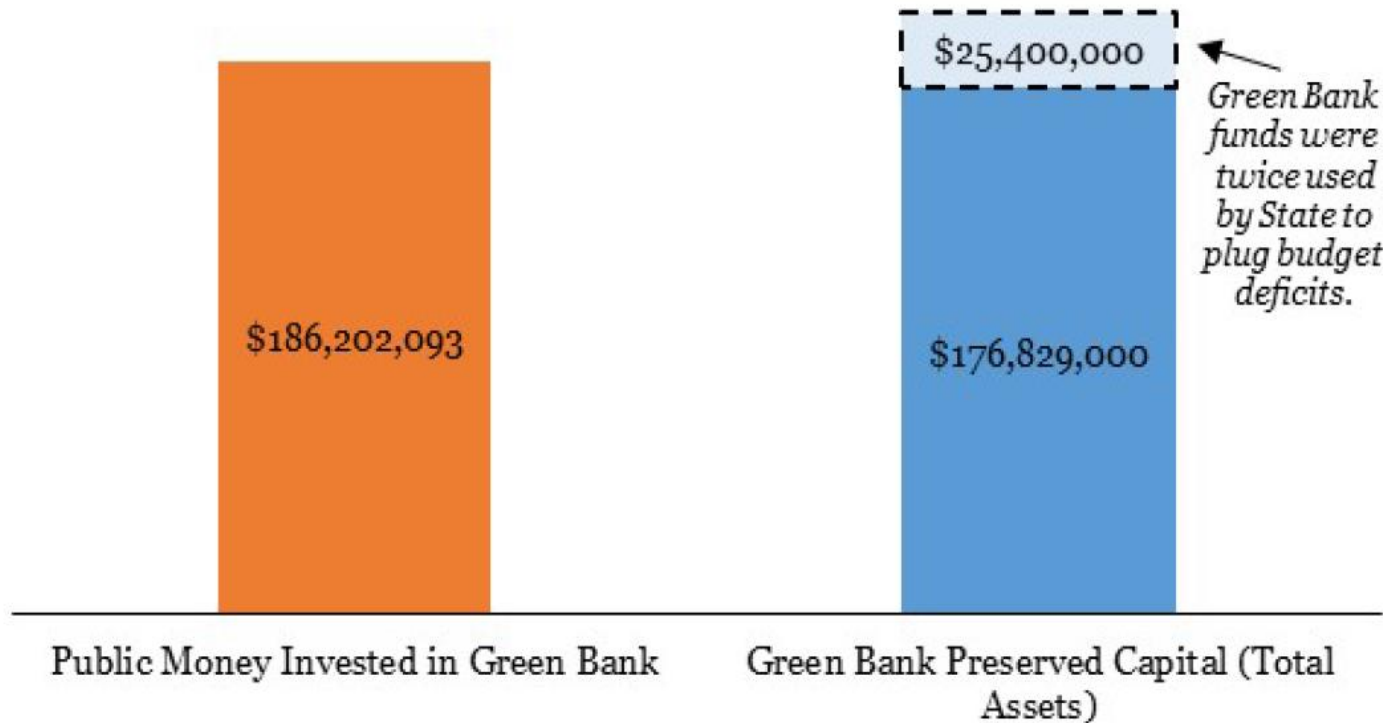


# Green Bank Preservation of Public Capital 2012-2016 Example

The State Put \$186  
Million in public funds  
into the Green Bank



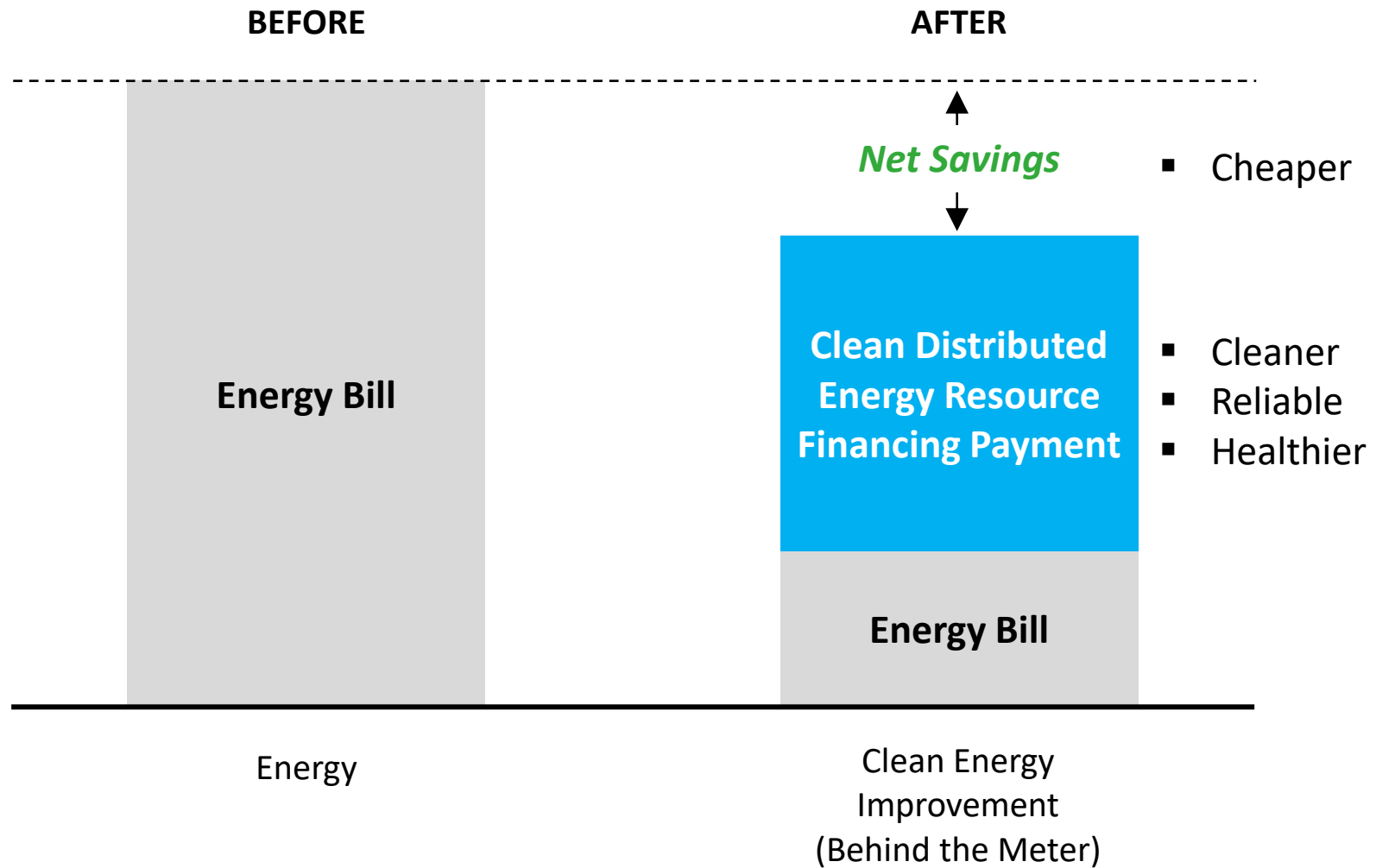
And effectively all of the  
capital has been preserved  
as Green Bank Assets



Preserving ratepayer capital as an asset to leverage  
more private investment that delivers more impact!

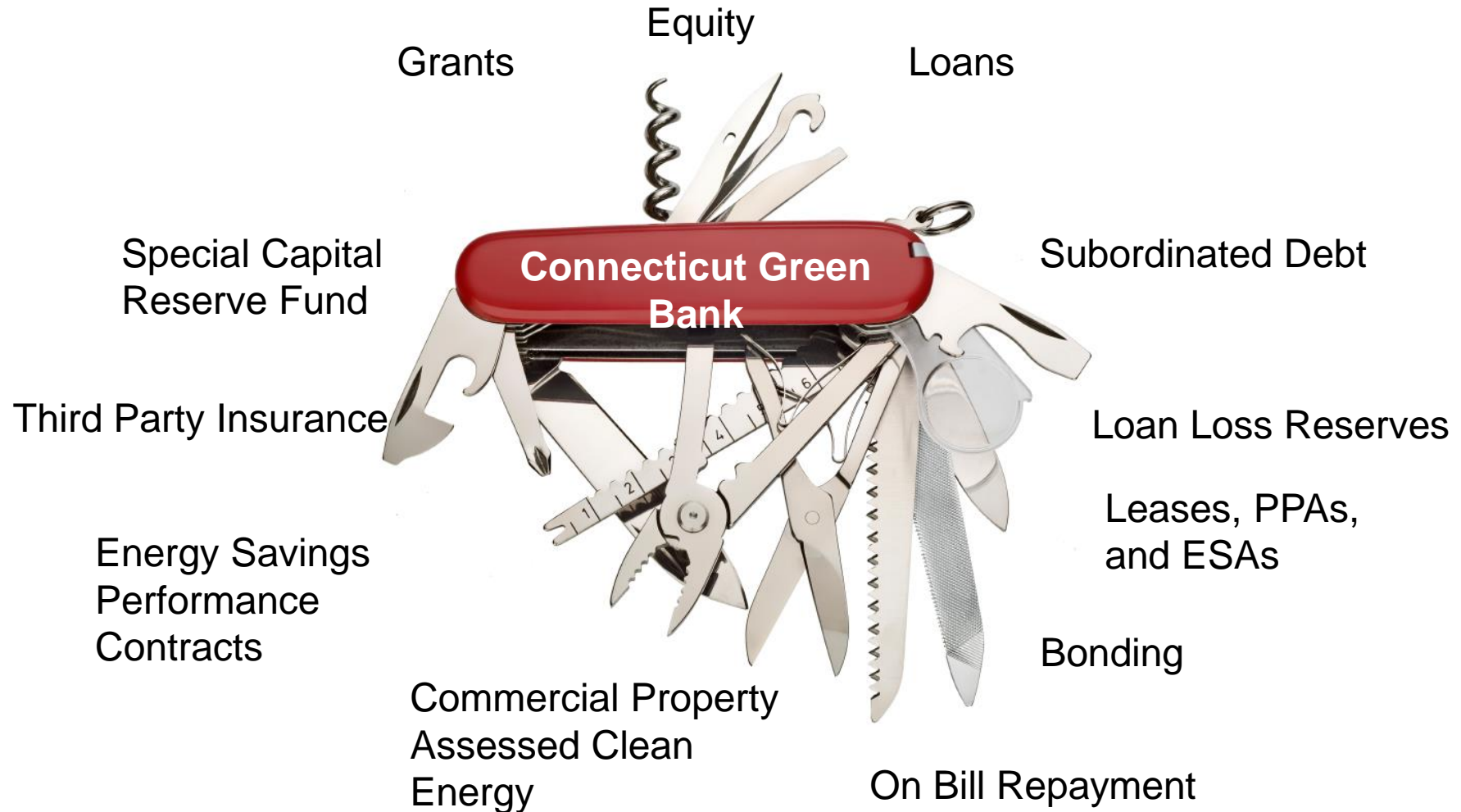
# Green Bank Model Basics

Reduce Costs – Increase Customer Demand

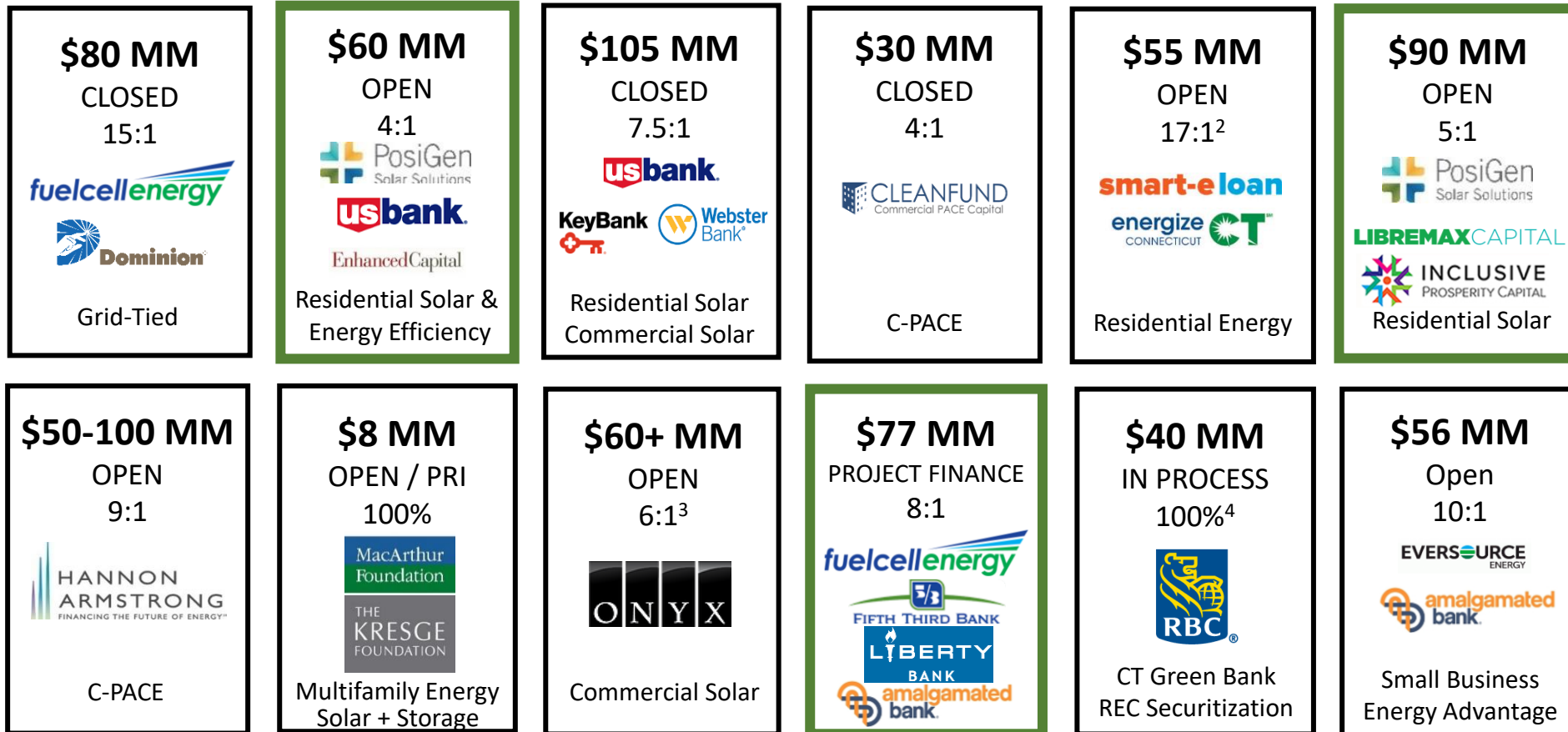


# Connecticut Green Bank

## Financial Tools



# Public-Private Partnerships Examples



## REFERENCES

- Several transactions such as small hydro, wind, microgrid, CHP and anaerobic digestors not represented on slide
- LLR of \$3.3 MM yields high leverage – and it is 2<sup>nd</sup> loss and thus with no to low defaults (i.e., 10 loans out of 3,447 have defaulted as of 12/31/18 with \$22K in LLR). IRB's using ARRA-SEP not considered in the leverage ratio.
- Onyx Partnership has no upper limit and CGB currently has authorization to commit up to \$15mm. The team expects to commit \$5mm for the first \$60-70mm.
- Securitization of Solar Home Renewable Energy Credits – approx. \$75mm in gross receivables securitized

Why Do We Do It?





















# Global Investment Needed

## Confront Climate Change



- UN Report<sup>2</sup> says the world will need **\$90 trillion in public and private capital** over the **next 15 years** to **confront the worst effects of climate change**.
- Equivalent to **\$850 per person per year** – Connecticut Green Bank has achieved nearly **\$80 per person per year on average over the last three years!**

### REFERENCES

1. How to Raise Trillions for Green Investment by Hank Paulson in the New York Times (September 20, 2016)
2. Financing Sustainable Development: Moving from Momentum to Transformation in a Time of Turmoil by the UNEP (September 2016)

# Investment Business

## Local Partners

“Liberty Bank has been a partner with the Connecticut Green Bank from the start. Liberty Bank recently provided a financing facility for the Green Bank’s capital needs for solar on homes across the state, which is supporting the state’s growing green economy.”

- Chandler Howard, President and CEO, Liberty Bank



“The importance of public-private partnerships, like the one between KeyBank and the Connecticut Green Bank, cannot be overstated, especially when it comes to the financing of renewable and other clean energy projects.

Our partnership with the Green Bank through the CT Solar Lease led to over \$100 million of investment to reduce the energy burden on nearly 1,200 families and 75 businesses in our communities.

Additionally, it was the involvement of the Green Bank that helped attract financing from Key Bank toward microgrid construction at critical facilities in Bridgeport, and a first-of-its-kind ‘micro-hydro’ generator at Hanover Pond in Meriden.”

- Christopher Gorman, Vice Chairman and President of Banking, KeyBank



“Our partnership with the Green Bank has helped us to invest in our local communities, while assisting the State of Connecticut in achieving its important energy, environment, and economic goals.”

- Larry Holderman, President and CEO, Mutual Security Credit Union



# IRA Creates a National Green Bank Fund

States have been called laboratories of democracy.

IRA includes a \$27 billion Greenhouse Gas Reduction Fund that will support competitive grants to national and local green banks.

Will use the money to invest in projects and innovations intended to reduce or avoid greenhouse gas emissions and other forms of air pollution.



# Three Pots of Funding

The fund's money is divided into three pots.

The first contains \$7 billion that is earmarked for the EPA Administrator to provide to either:

- states,
- municipalities,
- tribal governments, or
- “eligible recipients.”

The 2<sup>nd</sup> & 3<sup>rd</sup> pots destined for “eligible recipients” **only**

\$ 7

A. Zero emission technologies & GHG reduction in low income / disadvantaged communities

\$12

B. General investment to reduce greenhouse gas emissions by leveraging \$\$ from private sector

+ \$ 8

C. Same as “B” but with required focus on low income & disadvantaged communities

**\$27 Billion**





# “Eligible Recipients”

- (1) ELIGIBLE RECIPIENT.—The term ‘eligible recipient’ means ***a nonprofit organization*** that—
- (A) is designed to provide capital, leverage private capital, and provide other forms of financial assistance for the rapid deployment of low- and zero-emission products, technologies, and services;
  - (B) does not take deposits other than deposits from repayments and other revenue received from financial assistance provided using grant funds under this section;
  - (C) is funded by public or charitable contributions; and
  - (D) invests in or finances projects alone or in conjunction with other investors.

# Move the Money

The fund could create a mechanism to quickly disburse the funds.

Because the EPA would be providing funding directly to the green bank(s)—not to the qualifying projects—there is no federal government involvement in the administration of the assistance.

This could limit certain federal requirements like the National Environmental Policy Act (NEPA).





**INNOVATE**

**EDUCATE**

**ACTIVATE**

**ACCELERATE**



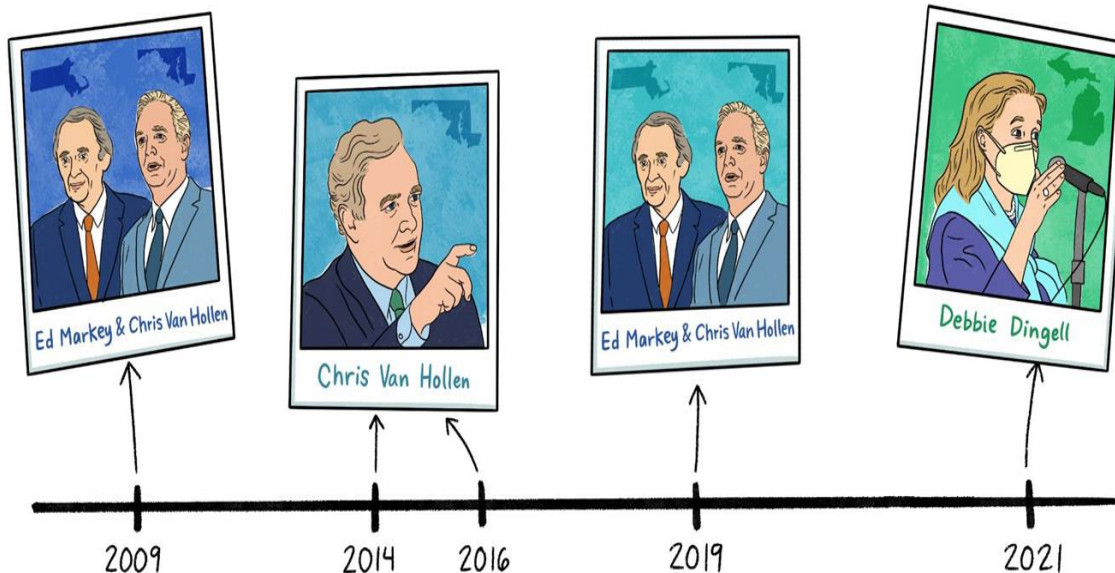
# The Inflation Reduction Act of 2022: What You Need to Know



## Reed Hundt

Founder & CEO  
Coalition for Green Capital

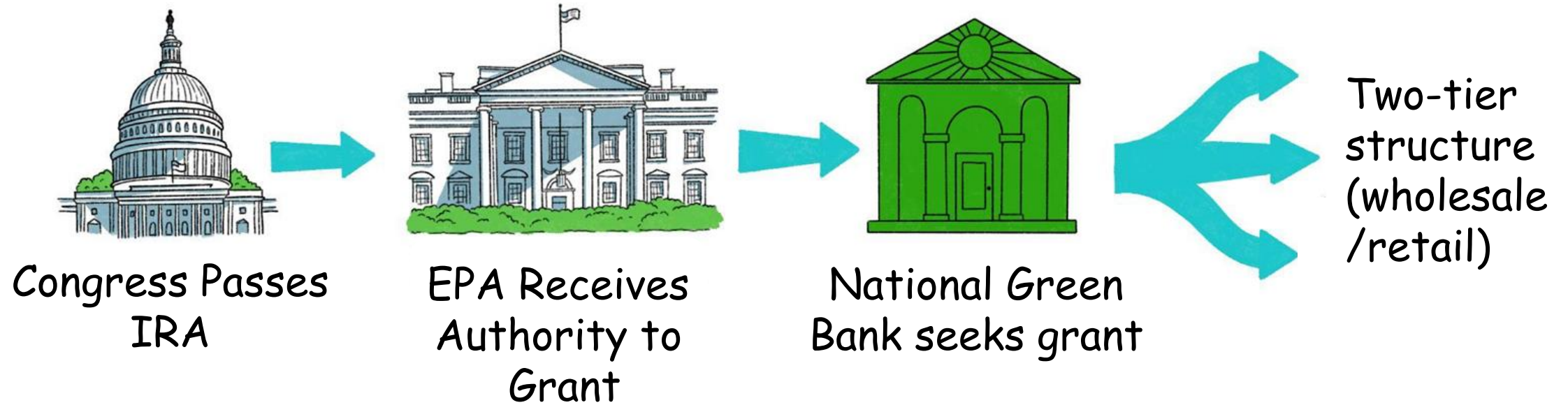
# Coalition for Green Capital: Creating the National Green Bank



*Today: GHG Reduction  
Fund*

*Page 657 in the 2022  
Inflation Reduction Act*

# GHG Reduction Fund obtains \$27B of grant authority



# Fund to be used by a national green bank for “Direct” & “Indirect” investment in emissions reducing projects

Legislation dictates activities of the national green bank. CGC assembling “big green tent” to build nationwide network of lenders (Green Banks, CDFIs, Credit Unions, Others) to achieve its purpose

## Direct Investment:

- Provide financial assistance directly to qualified projects
- Prioritize investment in projects that otherwise lack access to financing
- Retain and recycle repayments and other revenue

## Indirect Investment:

- Provide funding and technical assistance to establish and support state and local finance entities making these same investments

## Qualified Project:

- Reduces or avoids GHG emissions or other air pollution by leveraging investment from the private sector
- Or
- Assists communities in efforts to reduce or avoid GHG emissions and other air pollution



# National Green Bank Triggers Flurry of Immediate Activity

- Nearly every green bank is prepared to deliver **significant early wins**
  - Early activity to include **tangible projects and new programs**
  - Day 1 projects **feature environmental justice**
- **Texas:** \$28 m affordable housing efficiency and solar project
  - **Louisiana:** \$25m green mortgage product
  - **Maryland:** \$3m in small solar projects at nonprofits
  - **Hawaii:** \$14 m smart meter project
  - **Connecticut:** \$20m in LMI building electrification project
  - **Rhode Island:** \$10m in loans for commercial Class B & C projects
  - **Florida:** \$10m in LMI resilience, solar, and efficiency projects
  - **Michigan:** \$2m for residential energy efficiency and solar projects
  - **California:** \$15m for residential energy efficiency projects
  - **Colorado:** \$10m for affordable housing EE and electrification
  - **Pennsylvania:** \$3m in solar projects on Philadelphia public school roofs
  - **New York:** \$50m in affordable housing EE, renewables, and electrification projects
  - **DC:** \$15m in rooftop solar and energy efficiency projects for low- and moderate-income households.



# Over 10 years, national green bank can achieve up to 18x leverage on public grant

## Leverage Mechanism

**Network members** “crowd-in” private investment in projects; historically green banks have done this at a 3:1 ratio

Over a ten year period, **CESA aggregates and securitizes asset-backed financing products** to recycle investments as many as three times over ten years

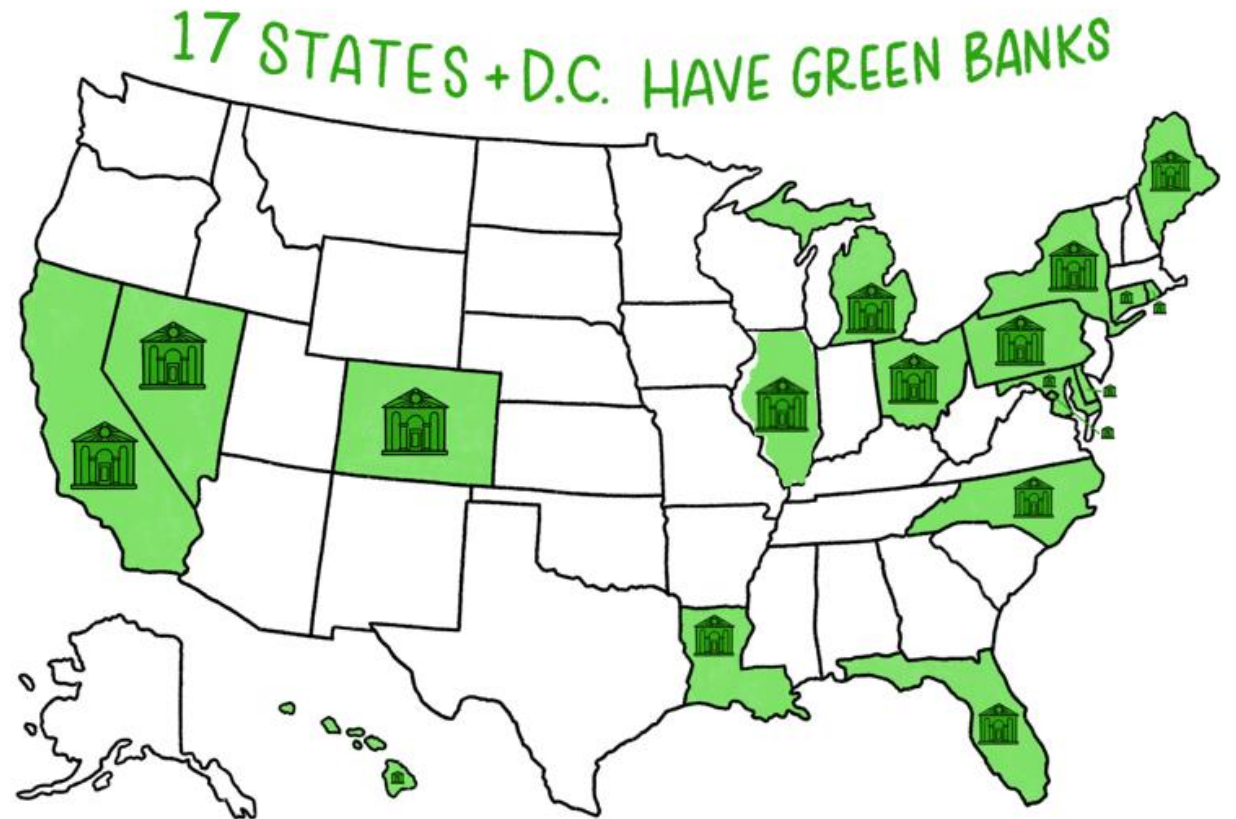
**CESA provides capital to network partners who are depository institutions** that can leverage that capital at approximately 3:1 ratio

## Green banks prove merit for last decade

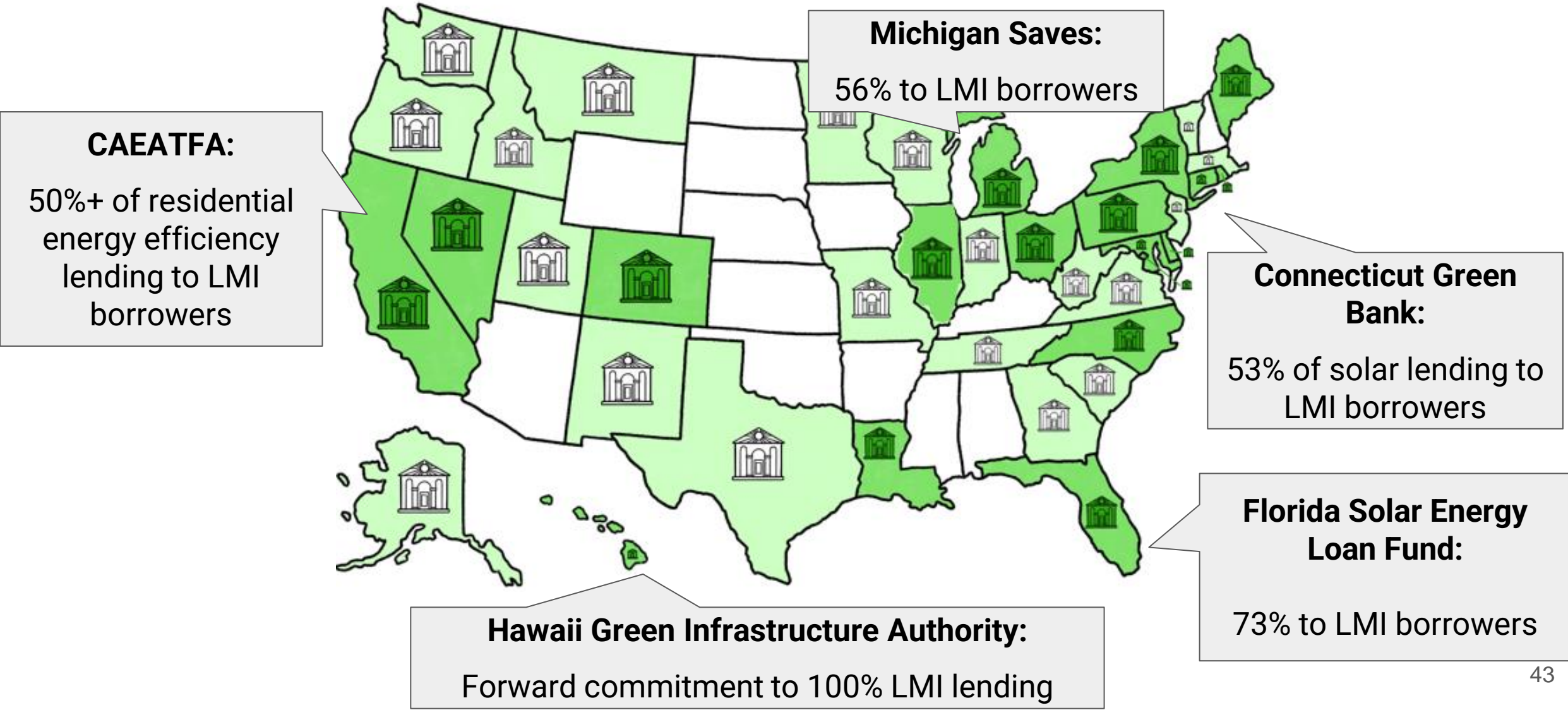
23 green banks in 17 states & D.C. during last 10 years.

Have spent \$2.5 billion, causing **\$9 billion total investment** in clean power platform.

Cumulative default rate under 0.5%.

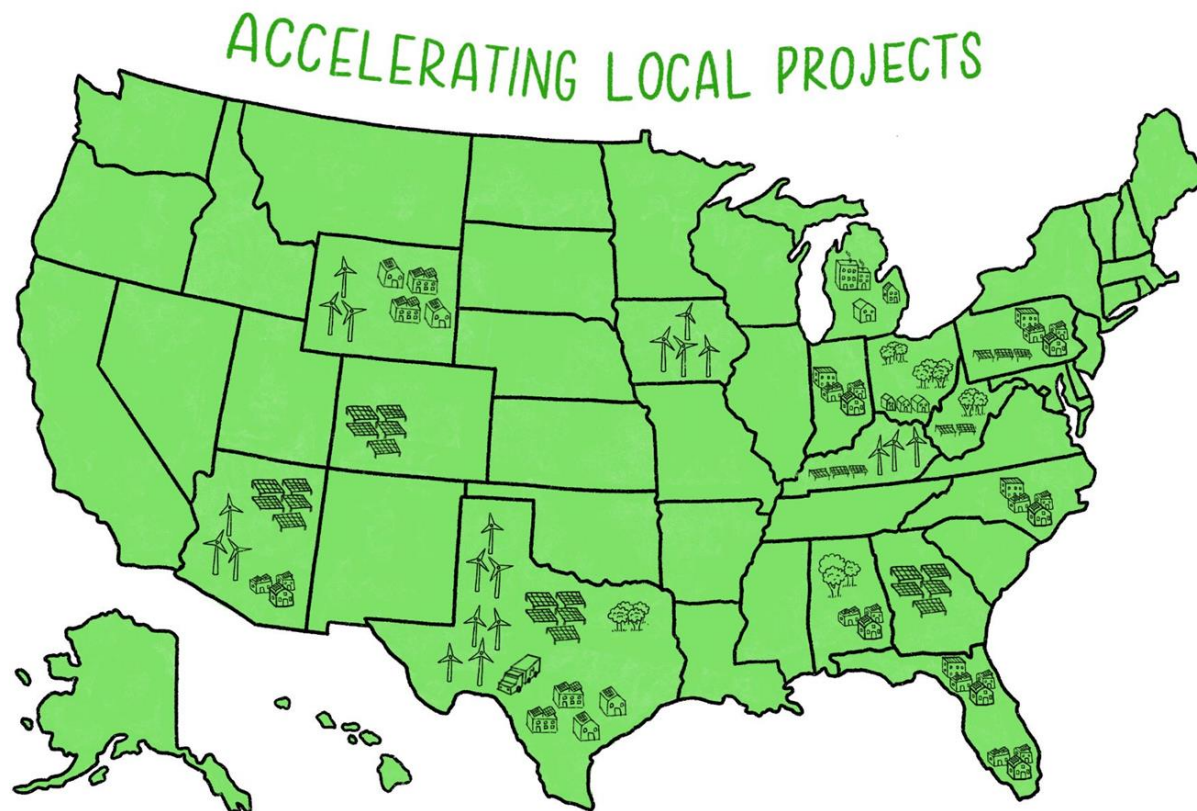


# Network primed for more EJ investment

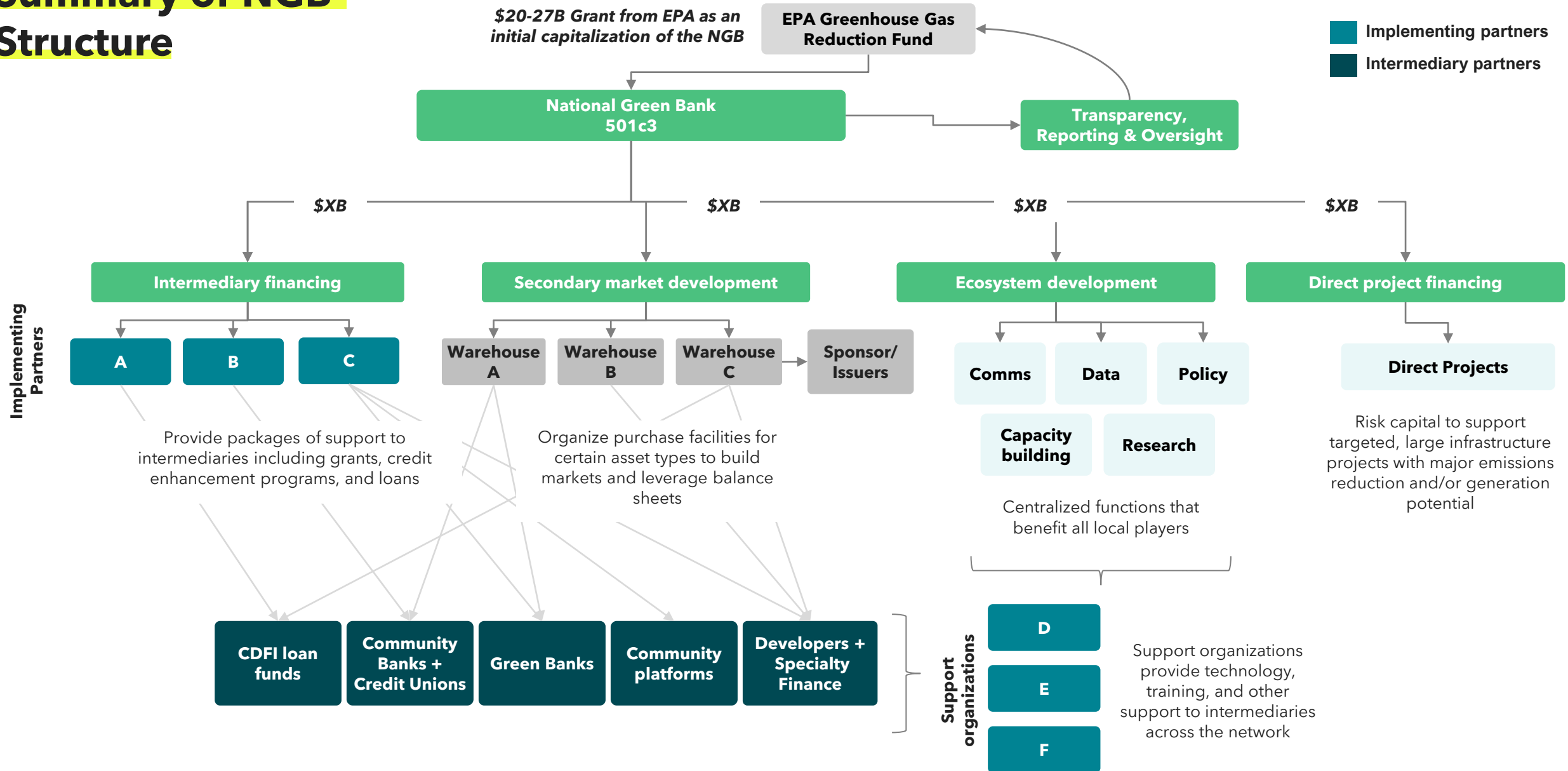


# National Green Bank to complete national network

- Recruit existing CDFIs, minority-owned banks, nonprofits, and other mission-aligned finance institutions
- Involve mayors, governors, city councils to create new government-sponsored institutions where appropriate
- Stand up and financially support new institutions led by local actors
- Involve private investors, utilities, contractors to build climate finance ecosystems in every state

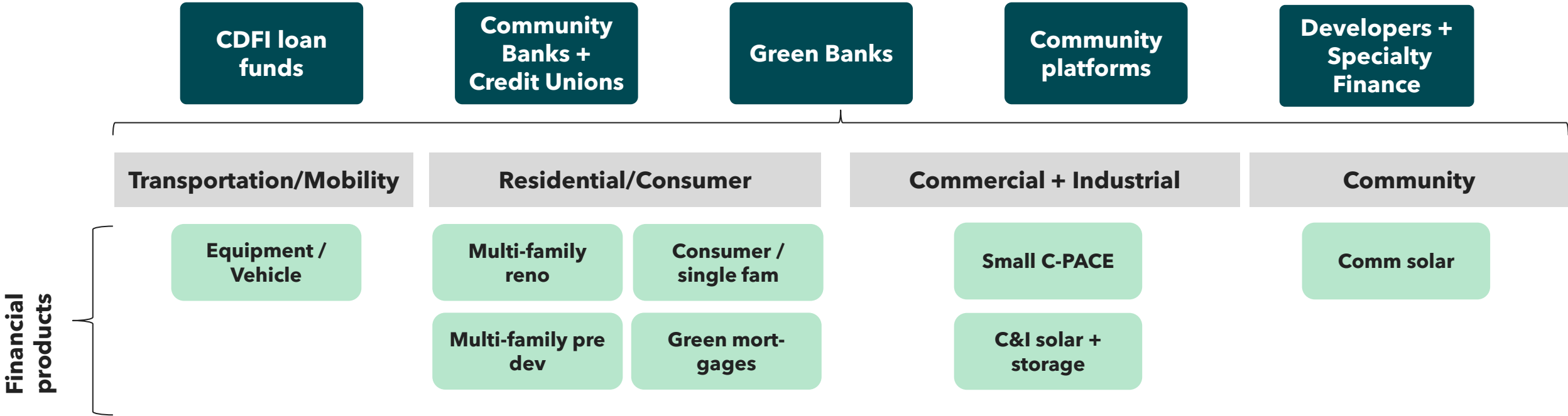


# Summary of NGB Structure

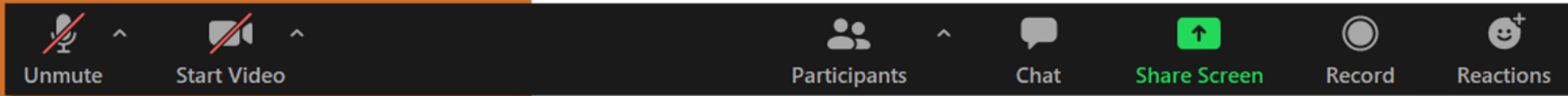




# Overview of Initial Indirect Product Suite



# Audience Questions



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### **Intro Tax Credit Finance WebCourse**

September 19-20, 2022 / 12:00 – 5:00 PM Eastern Daily

### **CDFA-Bricker Webinar Series: Democratization of Power**

Tuesday, September 27, 2022 / 2:00 PM – 4:00 PM Eastern

### **CDFA National Development Finance Summit**

November 2-4, 2022 in Denver, CO

# Contact Us



**Mitchell Smith**

**Council of Development Finance Agencies**

Director, Government & External Affairs

614-705-1308

[msmith@cdfa.net](mailto:msmith@cdfa.net)