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SF LAFCo comments on combining HOMES and GGRF funds for green bank lending

Additional submitted attachment is included below.

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January 26, 2024

TO: California Energy Commission

FROM: Jeremy Pollock, Executive Officer
San Francisco Local Agency Formation Commission

SUBJECT: Docket No. 23-DECARB-01: RFI Inflation Reduction Act Home Efficiency Rebate Program (HOMES)

As Executive Officer of the San Francisco Local Agency Formation Commission (SF LAFCo), I welcome this opportunity from the California Energy Commission (CEC) to comment on the CEC's approach to program design for the federal Inflation Reduction Act (IRA) Home Efficiency Rebates (HOMES) Program and the CEC's application to U.S. Department of Energy (DOE) for $292 million in funds, as it intersects SF LAFCo's work studying San Francisco municipal services for renewable electricity and for City-managed financial services.

Summary

We recommend the CEC explore partnering with the California Infrastructure and Economic Development Bank (IBank) and/or other green banks to combine the HOMES funds with loans financed through the IRA's Greenhouse Gas Reduction Fund (GGRF). This would allow the HOMES funds to deliver benefits to substantially more low-income households, while also building the lending and technical assistance capacity of the lending partners.

Additionally, we recommend that the CEC provide clear models and pathways for how federal and state loans and grants, including the GGRF, can be combined to benefit low-income and disadvantaged communities. Simply put, we recommend that the CEC provide local jurisdictions with guidance in how to direct a minimum of 40% of all funding to low-income communities in a way that actually benefits those communities equally and equitably.

Background

SF LAFCo staffed the San Francisco Board of Supervisors' Reinvestment Working Groupv, which recently developed business and governance plans for both:

- a non-depository municipal finance corporation that would function as a green bank that is wholly owned by the City, and
- a public bank as defined by California Government Code Section 57600(b)(1)

These business plans detail proposed lending programs for zero-emission renewable energy systems and energy efficiency upgrades.

SF LAFCo is currently studying green bank financing, specifically how the City and County of San Francisco could access funding for a green bank from the Greenhouse Gas Reduction Fund (GGRF) that is being administered by the Environmental Protection Agency (EPA).

Two of the GGRF's three funds are designed for lending entities like green banks to finance GHG-reducing projects, deliver benefits to low-income and disadvantaged communities (LIDACs), and mobilize financing and private capital. At least 40% of the $14 billion National Clean Investment Fund (NCIF) will be used for loans in LIDACs, and 100% of the $9 billion Clean Communities Investment Accelerator (CCIA) will be used for loans in LIDACs.

Responses to RFI Questions

Response to Question 2.a.i. How can HOMES funds that are awarded to deliver residential whole building energy efficiency retrofits, be best utilized to support the state's decarbonization and electrification goals?

We recommend that HOMES funding be used for a program that partners with IBank and/or other green banks ("lending partners") that receive funding from the GGRF. The HOMES funds would pay for a portion of projects, while the lending partners would design loans for the balance of the projects, so that the loan payments would be funded by the utility bill savings projected from the efficiency and electrification projects. This would allow the HOMES funds to deliver benefits to substantially more low-income households, while also building the lending and technical assistance capacity of the lending partners.

Response to Question 2.a.iv. Leveraging and Stacking. (generally)

The CEC should provide models in its application of successful leveraging and stacking of federal and state loans and grants, including the GGRF, that benefit low-income and disadvantaged communities and does not place an undue burden on those same communities.

Response to Question 2.b.ii. What are the options to manage and allocate performance risk and financing costs during the 9 to 12-month post-installation period prior to issuing the rebate? Options should consider at a minimum that: low-income households are not required to utilize personal funds to pay for rebated work, the inability for many contractors, installers, or small businesses to "float" rebate costs, and the cost of capital for aggregators (or some designated entity) to float those costs.

The CEC should invest in a program design that accommodates the modern economic realities of many low-income and disadvantaged communities. The success of any program designed to assist low-income communities depends on the removal of burdens that low-income people must overcome inorder to access these programs.

One possible scenario is for CEC to partner with I-Bank and local green banks (once formed) to provide low-interest financing to low-income small business owners who will be bearing the burden of a non-braided program.

Even in the best-case scenario, many small businesses will be excluded from participation simply because they cannot cover the gap between acceptance into a program and the eventual reimbursement from the city or state. The existing supply of loan products is limited. While support for building energy upgrades is more common, financing for broader climate justice initiatives appears rarer. The current interest rate environment has complicated electrical contractors' ability to secure affordable financing for building improvements. And the long-term nature of many green energy, energy efficiency, and climate justice projects require long term financing, which is not generally available or doesn't adequately complement project timelines.

Response to Question 2.c. Eligible Recipients. Should CEC reserve additional HOMES funds for low-income households, beyond the DOE-requirement of 50 percent of total rebate funds? If so, why, and what percent?

The CEC should reserve additional HOMES funds for low-income households and provide 100% of total rebate funds. Simply stated, this program will fail if it does not replace the current norm of exclusion of low-income communities and if it does not address the ever widening "green gap" where these programs make unrealistic assumptions of low-income people.

There is a need to fund and partner with nonprofits serving each neighborhood to help engage, educate, and provide technical assistance to local businesses and residents in-person. This suggests a structural need to create connectivity to trusted entities that have the capacity to serve diverse clients in their resident neighborhoods. These residents and businesses may otherwise be disenfranchised due to factors of distrust, and the lack of geographic proximity to assistance (lack of geographic diversity), and lack of cultural competency.

Analysis and accountability for the structural and systemic barriers that exist currently and have existed historically is critical in helping to elevate the linkages between the past and present economic realities of diverse and low-income communities. The status quo of the past continues to be perpetuated in the present by non-wholistic eligibility requirements and outdated program rules.

Response to Question 2.d. Income Verification.

The CEC should utilize the U.S. Department of Housing and Urban Development (HUD) "Low Income Limits" which are based on 80% of the area's median income. In San Francisco in 2022 that was $104,400 for an individual and $149,100 for a family of four.[1]

[1] https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines (Direct: https://www.huduser.gov/portal/datasets/il/il2022/2022summary.odn?states=6.0&data=2022&inputname=METRO41860MM7360*0607599999%2BSan+Francisco+County&stname=California&statefp=06&year=2022&selection_type=county; SEE Appendix A)