

A GREEN NEW DEAL GUIDE TO DIRECT PAY FOR CITIES

HOW LOCAL GOVERNMENTS CAN USE FEDERAL FUNDS FOR PROGRESSIVE PRIORITIES

MAY 2024

As the climate crisis worsens, communities need urgent public investment in climate solutions to draw down emissions, increase community health and resilience, and generate good green jobs. The good news is that the 2022 federal Inflation Reduction Act includes Direct Pay tax credits that have the potential to bring nearly unlimited funding for clean energy projects into the communities who need them most.



Co-authors:

Priya Mulgaonkar & Saul Levin | Green New Deal Network

Katie Thomas, Jessica Juarez Scruggs, & Heejin Hahn | Congressional Progressive Caucus Center

Contact: pmulgaonkar@greennewdealnetwork.org

A GREEN NEW DEAL GUIDE TO DIRECT PAY FOR CITIES

How local governments can use federal funds for progressive priorities

MAY 2024

An Urgent Opportunity to fund a Green New Deal

Right now, municipal governments across the country can tap into the biggest climate investment ever made by the federal government. If deployed strategically, the Inflation Reduction Act's Direct Pay tax credits have the potential to radically expand publicly-owned energy, support communities transitioning away from polluting energy sources, generate affordable—and potentially free—electricity, and create good jobs for local communities.

What is Direct Pay?

For the first time ever, **tax-exempt eligible entities like municipalities, states, non-profits, and tribes will receive tax-free, cash payments from the IRS** for sustainable energy projects as long as all requirements are met. These entities are eligible for up to 70% back in tax-free cash funding through this new program.

Any eligible entity that applies for a Direct Pay tax credit with an eligible project should be approved. By increasing access to these credits, Direct Pay will help build sustainable energy infrastructure and create good-paying jobs.



How can cities access Direct Pay?

Direct Pay is an uncapped tax credit, not a grant fund with a limited pot of money. Every project that qualifies gets funded and the city can claim it for as many projects as they have. Projects must be finished and “placed in service” first and then they are eligible to get 30–70% of project and material costs back. Direct Pay refunds from year 1 can be rolled into the next wave of programs.

Eligible Projects

Direct Pay can be used to help finance:

- Solar arrays
- Batteries
- EV chargers
- Commercial clean vehicles (school buses, city buses, garbage trucks etc.)
- Wind
- Geothermal
- Hydropower

About the Green New Deal Network (GNDN)

GNDN is the hub of the movement for a Green New Deal. We bring together frontline communities, labor organizers, and climate activists from all across the country to drive massive public investments towards a Green New Deal at all scales of government.

About the Congressional Progressive Caucus Center (CPC Center)

The Congressional Progressive Caucus Center will be providing regular updates and further resources on [Direct Pay](#). You can also request technical assistance on a Direct Pay project through the CPCC's website by filling out our [technical assistance intake form](#).

A GREEN NEW DEAL GUIDE TO DIRECT PAY FOR CITIES

How local governments can use federal funds for progressive priorities

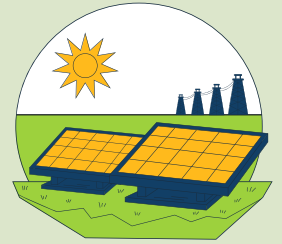
MAY 2024

What are the types of projects municipal governments should consider?

Direct Pay is a unique opportunity for cities and towns to build their own clean energy projects. Here are some examples of how the city can use direct pay:

- **Installation of clean energy technology** (solar arrays, batteries, EV chargers, wind turbines, geothermal systems)
- **Installation of solar panels on a school roof** to provide electricity for school buildings.
- **Installation of a central geothermal system** to heat campuses or community buildings.
- **Purchase of electric school buses or other clean energy vehicles** (school buses, city buses, garbage trucks etc.
- Installation of microgrids – a small network of electricity users – with solar and energy storage to serve facilities during emergencies and grid outages.
- **Installing EV / alternative fuel vehicle refueling properties** such as charging equipment.

Cities can also help other eligible entities (such as non profits, houses of worship, and more) to seize this opportunity by providing grants or a revolving loan fund for green energy projects that qualify for direct pay. This upfront financing can be covered after project completion by direct pay, replenishing the loan fund for future projects. City funding should be directed to the most impacted/disadvantaged communities and projects should be required to use local hire, union labor, good wages etc. Loans should be limited to the best solutions for the health of communities and the climate like wind, solar, geothermal and EV instead of false solutions like LNG or waste incineration.



Action item: Invest in city-owned clean energy and storage projects on government buildings, schools, hospitals, and more.



Action Item: Set up a municipal Revolving Loan Fund to provide small grants to nonprofits, houses of worship, and other eligible entities.



Action Item: Prioritize loans for disadvantaged communities; require strong labor and workforce development standards.

A GREEN NEW DEAL GUIDE TO DIRECT PAY FOR CITIES

How local governments can use federal funds for progressive priorities

MAY 2024

What progressive priorities can Direct Pay fund?



Green New Deal for Public Schools: Schools can use direct pay to repay the installation solar panels, EV buses and EV chargers, use energy savings to raise teacher pay and expand programs like art, music and high quality afterschool programs. Many schools have suffered from disinvestment, leading to deferred maintenance and obstructing progress toward decarbonization.



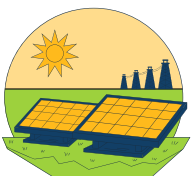
Green the Care Sector: Municipal and county hospitals, as well as private non-profit hospitals, are eligible for direct pay. Direct pay can also be used to replace ambulances, buses and other city vehicles with EV vehicles and get Direct Pay cash for both the vehicles (\$40,000 per vehicle) and installing EV chargers. Add renewable energy like wind and solar to hospital and health center buildings to reduce energy costs and add battery storage to protect vital healthcare facilities during storms.



Decarbonize all Municipal Buildings: Put solar panels, wind and batteries on all city buildings, fire stations, and community centers to a) strengthen the grid, b) save money in energy costs, c) create safe community hubs that will have power in the event of a storm or power outage or heatwave.



Electrify Transportation: Install city owned EV chargers in low income neighborhoods and get Direct Pay back to help cover the costs. Publicly owned EV chargers in low income neighborhoods 1) makes EV vehicles more accessible, 2) means the city can sell electricity to charge cars at a fair rate, 3) strengthens the grid, 4) provides a sustained income source for the city that can support important social programs.



Public Power: Large-scale city-owned solar arrays can be installed on Brownfield sites creating city-owned power, retrofitting coal plants to geothermal, spurring the use of previously contaminated land, creating jobs, and putting renewable energy assets in public hands (instead of in the hands of for-profit utilities).

A GREEN NEW DEAL GUIDE TO DIRECT PAY FOR CITIES

How local governments can use federal funds for progressive priorities

MAY 2024

How can we keep equity and strong labor standards as we implement Direct Pay?

★ Ensure city funding is targeted to the communities who are most impacted first.

- Black, Latine communities, Indigenous, and other communities of color
- Low-income communities experiencing uneven impacts of climate change and pollution
- Communities who have experienced over-policing, returning citizens
- Communities who have experienced redlining and systemic disinvestment
- Communities disproportionately exposed to environmental pollutants
- People with disabilities
- Communities who have experienced disproportionate job losses



★ Ensure that city funding supports local hire, prevailing wage, and union labor for city projects and for any projects funded by a grant or loan fund.



★ Ensure that local residents have access to good green jobs with training programs and partnerships with unions and contractors. The City can either build new or grow existing job training programs, while also strengthening pathways from Career Technical Education to full time, high quality clean energy jobs by providing more youth training programs.



★ Ensure Direct Pay funds do not support false solutions that perpetuate our reliance on fossil fuels and harm communities, including LNG and waste incineration.

A GREEN NEW DEAL GUIDE TO DIRECT PAY FOR CITIES

How local governments can use federal funds for progressive priorities

MAY 2024

What other funding can cities access?

Direct Pay is not the only federal investment that can help cities achieve a Green New Deal and should be stacked with other funding opportunities. Direct pay cannot be used for upfront financing; it's a tax credit in the form of a refund.

However, the local governments can access funding under several federal and state programs and get funding back from the federal government (up to 60% of cost of equipment and labor in cash). The city can apply a direct pay tax credit to a project that has also received other types of funding – including federal grants or loans, municipal bonds, general funds, private investment, and more – the upfront funding source doesn't matter!



Federal Funds

- **Greenhouse Gas Reduction Fund.** The EPA has announced its selections for \$20 billion in grant awards under two competitions within the historic \$27 billion Greenhouse Gas Reduction Fund (GHGRF). [This includes 3 awards under the \\$14 billion National Clean Investment Fund](#) and [5 awards under the \\$6 billion Clean Communities Investment Accelerator](#), which together will create a national clean financing network for clean energy and climate solutions across sectors to provide communities with upfront capital for key projects.
- **Solar for All.** Of the \$27B GHGRF, is [\\$7 billion in grants through the Solar for All program](#). EPA has awarded funding that aims to reach every state and territory.
- **Climate Pollution Reduction Grants (CPRG).** Most states and large metropolitan areas will receive funding to implement their CPRGs, which can be used to help provide upfront funding for climate projects eligible for direct pay.
- **US Dept. of Energy Loan Program.** The Inflation Reduction Act (IRA) declares that the existing Section 1706 loan program can offer up to \$250 billion for projects that “retool, repower, repurpose or replace” closed-down energy infrastructure or enable still-running infrastructure to “avoid, reduce, utilize or sequester” carbon emissions or air pollutants. This program could provide upfront financing for municipal projects that can be paid back through Direct Pay tax credits and energy savings.
- **Air Pollution at Schools.** On March 19 2024, the deadline closed on \$37.5 million in competitive grants funding to address air pollution at schools. The City should monitor which entities received funding and share resources as needed. Eligible for States, Tribes, Territories, local governments/educational agencies, NGOs, etc. for grants and other activities to monitor and reduce pollution and greenhouse gas emissions at schools in low-income and disadvantaged communities.

A GREEN NEW DEAL GUIDE TO DIRECT PAY FOR CITIES

How local governments can use federal funds for progressive priorities

MAY 2024

What is the timeline for accessing direct pay funds?

Remember -- Direct Pay cannot be used to pay for a project up front; it can only be used to reimburse costs from a project completed within the last tax year. The timeline for accessing Direct Pay funds can take 4-18 months.

Here are the steps outlined by EESI:

1. Place into service the qualified clean energy project.
2. Collect the necessary information to pre-register your project, such as the tax period, employee identification number, registrant's address and banking information.
3. Determine your tax year.
4. Identify your Employer Identification Number (EIN).
5. Pre-register your project with the IRS.
6. Receive your registration number(s) from the IRS.
7. File your annual tax return (i.e., 990 T-form).

Direct Pay Timeline



*The entire process can take anywhere between four and 18 months

Graphic by: Aaron Vincent Facundo, EESI

More Resources

- ["Cash for Communities: Leveraging Historic Federal Funds for Racial, Economic, and Climate Justice"](#) by Congressional Progressive Caucus Center and Local Progress Impact Lab.
- [Sample Community Presentation](#): The CPC Center's sample presentation on Direct Pay can be used without attribution or adapted for your purposes.
- [Partner Toolkit](#): The CPC Center's toolkit for community advocates contains sample messaging, sample social media posts, shareable graphics and other tools for local advocates.
- [CPC Center FAQ for Local Governments on Direct Pay](#)
- [CPC Center Resources and Tools for Direct Pay](#)
- [Green New Deal Network – Federal Funds for Communities Resource Page](#)

To learn more, visit
greennewdealnetwork.org
or follow us @GND_Network

