CLIMATE INFRASTRUCTURE FINANCE COORDINATION REPORT

State Treasurer’s Office
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The Legislature charged the Treasurer's Office to support climate infrastructure financing coordination efforts in Vermont in the Fiscal Year 2024 Appropriations Act (link here).

In that Act, the Legislature requested a report with recommendations from the Treasurer by January 15, 2024, focused on improving climate infrastructure financing efforts across the State, the creation of a framework for more collaboration among Vermont organizations, agencies, & financial instrumentalities, and additional focus on the deployment of these funds. The first report is available on the Treasurer's website (link here).

The Legislature asked for a follow-up report on the same topic in Act 143 of 2024. This second report details progress since the January 2024 report and is organized as follows:

- Section 1: The most relevant points of leverage identified by the Treasury team since January 2024;
- Section 2: Integrating the Resilience Implementation Strategy with the climate infrastructure financing work;
- Section 3: Status of coordination efforts as requested in Act 143 and proposed in the January 15, 2024, report to the Legislature;
- Section 4: Considerations regarding funding and financing uncertainty for some climate infrastructure and resilience-related programs with a new Federal administration and the implications for the Legislative charge to the Treasurer's Office; and
- Section 5: Additional recommendations (beyond the January 15, 2024, report) regarding state climate infrastructure financing.

SECTION 1 – Relevant Highlights Since January 2024

This section lays out four of the most relevant points of leverage identified by the Treasurer's team since January 2024. Some of these may warrant Legislative attention as well, as noted in Section 5. Please note subsequent sections, and in particular Section 3, respond comprehensively to the Act 143 request.

First, the Treasurer's team has identified the Municipal Technical Assistance Program (MTAP) as a potentially valuable mechanism for future funding that could provide support to rural communities on projects they have identified for themselves, complement significant resilience & climate related work already underway across the state, and leverage the unique assets the MTAP program created.

In 2023, MTAP was funded with a $3 million Budget Adjustment Act allocation and funds were structured so that low-capacity towns (based on a Vermont Community Index, VCI) would have the first opportunity to apply for them. The final report on the program noted that all 61 low-capacity communities (bottom quartile in the capacity index) completed community needs assessments (CNAs) and 30 projects were identified via those CNAs. Following the 2023 floods, the program was opened to the next quartile and at least 35 percent of that next group of 69 eligible towns completed their CNA.

The Treasurer’s team has been working with the Chief Recovery Officer and the Agency of Administration to evaluate the case and funding pathway for a $2 million recapitalization of MTAP to complete (i) specific projects identified in 2023 round with a high-priority resilience component as identified by the Chief Recovery Officer; (ii) resilience-related investments identified as part of the Community Needs Assessments but not previously funded; or (iii) as matching funds for Federal grants related to climate or resilience investments and specifically to include high-priority Hazard Mitigation programs like floodplain restoration and buyouts with specific projects tracking the Vermont Community Index prioritization of lower capacity communities. It appears that funds devoted to MTAP could result in significant multiplier effects drawing down federal dollars and the program has a track record of success in Vermont already.

Second, the Treasurer’s team has identified and begun making the case for Vermont to apply to the Safeguarding Tomorrow Revolving Loan Fund program managed by FEMA. This program provides one-time capital grants to states (and so far, one tribal area) to establish revolving, evergreen loan funds; initial grants have ranged from$5 to $17 million. State population or economic size is not predictive of grant award magnitude - North Dakota, Iowa, and New Jersey are among the recipients that have received the most funding through this program so far. These funds are then loaned out by the State to municipalities at very low cost (no more than 1 percent interest) to make necessary investments to make communities more resilient. Knowing that demand for resilience-related investment outstrips the current supply of funds – the recent State Hazard Mitigation pre-application round resulted in about $400 million in requests for about $80 million in available funds – these capitalization grants for new low-cost revolving loan financing could be a critical foundational component of any long-term strategy to mitigate the risks and costs of climate-related natural disasters in the State.

Importantly, FEMA delegates to the receiving State emergency management entity the authority for allocating grant funds as loans, which would give Vermont Emergency Management more latitude in selecting projects that can benefit Vermonters. The program also allows for a percentage of the grant to be used for technical assistance to benefit loan beneficiaries. In addition, in some situations the Safeguarding Tomorrow RLF loans can be used to match Hazard Mitigation grants.

Within the Vermont-specific context, the Vermont Bond Bank is willing to assume financial management of the revolving loan fund and even assist with application drafting. Vermont Emergency Management must by statute be the applicant to this FEMA program, with the next application due in April. Further, the capitalization grant from FEMA is structured to allow a minimum of $100,000 annually to cover any new staff costs (and significantly more depending on the total size of the grant). The Treasurer’s team is in discussions with Department of Public Safety leadership and the Bond Bank about the potential value of millions of dollars of new funds that can be loaned out on a revolving basis to viable projects throughout the state.

Third, as the Treasurer and team worked with municipalities to identify barriers to accessing Elective Pay, it has added additional engagement of State agencies with the

Climate Action Office. Elective Pay, also called Direct Pay, is a program that can result in a rebate to states, municipalities, non-profits, rural energy coops, and others for up to 30 percent of project costs for eligible projects like electric vehicle purchases, EV chargers, or solar arrays. The State's Climate Action Office highlighted that this coordination could benefit state projects as well. The Treasurer's team organized a first meeting for the Agency of Administration and the Climate Action Office to discuss with the Vermont Bond Bank resources the Bond Bank has now made available for municipalities that could also benefit the State, and the CAO's team will continue to explore how other states have integrated this program into their capital planning and how they utilize the rebate funds – as new General Fund revenue or as money set aside for other similar projects.

Fourth, in evaluating some other states' efforts – like Oregon's – the Treasurer requested the creation of a matrix that tracks known climate infrastructure-related funding and financing programs of relevance to Vermont organizations. That database is now available on the Treasurer's website under the Climate Infrastructure Financing tab. It provides information about different programs as of November 2024: program description, eligible applicants, grant or loan terms, match requirements, and other relevant details. The database builds on those created by other Vermont organizations – like VLCT's Federal Funding resource page and the Chittenden County Regional Planning Commission's Federal Resources page. This climate database also builds on lessons from the Oregon experience and funding model, as well as emerging opportunities identified through the Climate Finance Roundtables (described in Section 3).

SECTION 2 – Integration of the Resilience Implementation Strategy Work

A second major initiative, which the Treasurer is leading in partnership with the Agency of Natural Resources, reflects State government's growing focus on resilience-related investments. The Resilience Implementation Strategy initiative announced on January 3, 2024, by Governor Scott and Treasurer Pieciak, defines the scope of the resilience work necessary to better protect Vermont communities from severe climate events. The joint initiative envisions a comprehensive Resilience Implementation Strategy in place by July 1, 2025, to advance greenhouse gas reduction efforts on one hand, and accelerate climate adaptation on the other.

To efficiently advance the Treasurer's Office component of that work, the Treasurer has established the Resilience Investment Working Group with a goal to identify potential funding and financing strategies to support priority investments in climate resilience across Vermont. The group operates with a timeline of 10 – 20 years in mind. It is an advisory group to the Treasurer (rather than a group aimed at achieving unanimous agreement on specific policy outcomes).

The Working Group's efforts fit well within the framework of the Resilience Implementation Strategy. The effort will support the requirement that the Treasurer establish a total cost for some priority resilience investments and identify potential ways to pay for these investments. The group may also identify ways to mitigate or transfer future financial risks as part of a broader set of strategies.

During the course of the group's meetings (three total anticipated between October 2024 and May 2025), the group will also engage with the Climate Action Office about that office's ongoing work assessing resilience-related needs across the State as well as, in the spring, some initial input on how the CAO recommends prioritizing those needs. The Working Group's meetings must conclude by late May / early June 2025 to allow the Treasurer, if feasible, to assess the overall need by July 1, 2025.

<u>SECTION 3 – Status of the January 15, 2024, Report Recommendations</u>

This section provides a comprehensive update on the ongoing work outlined in the original January 15, 2024, report, which made eight recommendations.

<u>Initial Report Recommendation #1</u>: Use the convening ability of the Treasurer's Office to organize a bi-annual half day "Cross-Sector Climate Finance Coordination Meeting" that is available to the public to watch via livestream.

The Treasurer's Office successfully organized and ran two half-day events in 2024 focused on cross-sector collaboration, information sharing, securing Federal funding, and innovation. These "Climate Finance Roundtables" became helpful deadlines for various actors who committed to speak so as to show progress on topics of participant interest.

The first event, in June 2024, brought 45 representatives from the public, private, and non-profit sectors together to discuss pending applications for Federal funding (i.e., the Climate Action Office's then-pending $99 million Climate Pollution Reduction Grant application and the Vermont Bond Bank's $40 million in Rural Energy Savings Programming financing application), recently awarded Federal funding (i.e., the Department of Public Service's Solar for All award), and underutilized Federal funding (i.e., Elective Pay). Speakers also helped clarify when further Federal guidance would help make additional potential funding – like components of the funding tied to the EPA's Greenhouse Gas Reduction Fund – available for application.

The agenda for the June event is available as Appendix A. The planning for this event included engagement with the Climate Action Office's Environmental Justice component, as well as a cross section of funders, advocates, and implementers all working in the climate infrastructure financing space. The discussion also resulted in a significant focus on Elective Pay as (i) an underutilized resource and (ii) a resource where improved access would require significant additional input from intended beneficiaries (i.e., municipalities). This follow up occurred between the two Climate Finance Roundtables and is detailed in the next section.

The second Climate Finance Roundtable, with 80 participants in November 2024, included (i) updates on progress since June; (ii) a detailed review of how to consider risk and uncertainty in climate infrastructure funding and financing under the incoming Federal administration; and (iii) breakouts for detailed discussion State leaders overseeing significant Federal funding programs, the impact of flood recovery and resilience-related investments, and new ways to augment local capacity to, for example, access Federal funding using an artificial intelligence tool. The breakout structure reflected feedback in surveys distributed at the first Climate Finance Roundtable – participants wanted an opportunity to dig deeper into the details of specific funding programs or policy areas. The associated agenda is included as Appendix B.

Due to a lack of interest in remote participation, the Treasurer's team held meetings fully in person in Montpelier rather than as hybrid events as initially envisioned in the January report. The in-person format seems to have been successful and – to the extent similar events occur in the future – we anticipate continuing the practice.

Initial Recommendation #2: Coordinate climate infrastructure financing technical assistance discussions to reduce costs and identify barriers to effective implementation in a way that complements Recommendation #1.

In preparation for the first Roundtable, the Treasurer's team held a Technical Assistance discussion to focus on the challenges in accessing Elective Pay from the perspective of utilities, installers, towns, and TA providers. The session was useful in identifying the fundamental issues, and helped inform the proposal from the Bond Bank that was presented at the first Climate Finance Roundtable for discussion. That proposal involves creating a new mechanism to aggregate financing on one hand and to manage procurement, installation, and operations & maintenance on the other. This is a complex undertaking that the Bond Bank (in coordination with some of the Treasurer's team) is conducting further diligence on, as well as evaluating structures in other states, to find the simplest path forward to deliver value for, in particular, smaller Vermont communities seeking to access these funds.

This kind of specialized follow-up to better understand the barriers to accessing a specific federal program also occurred for Elective Pay in the runup to the second Roundtable, with a focus on municipal feedback and engagement. Those discussions resulted in a slimmed-down model to increase local capacity to apply for funds – namely, "on-call" CPA assistance with tax filings that are very different from other filings municipalities have to complete. That new service is now in place and hosted at the Vermont Bond Bank. These discussions also highlighted an opportunity for State agencies to use Elective Pay, described further in Section 1.

Initial Recommendation #3: Establish a Resilience Implementation Strategy Initiative Task Force.

The update for this recommendation is outlined in Section 2, which describes the creation of the Resilience Investment Working Group.

Initial Recommendation #4: Establish a credit facility for up to 2.5 percent of the average daily cash balance of the State to augment existing climate infrastructure and resilience lending facilities.

The Treasurer's team has submitted a separate report to the General Assembly on this credit facility, dated November 15, 2024, as part of an update on the Local Investment

Advisory Committee / "10 Percent in Vermont" work. That report is available at the link here.

Initial Recommendation #5: Complete further study of potential Green Bank models across the United States and the potential applicability of elements of these models in Vermont.

There are two recent positive developments in municipal green financing. The Vermont Bond Bank closed on a $40 million Rural Energy Savings Program (RESP) 0-percent interest loan from USDA Rural Development in 2024, which will strengthen its ability to provide low-cost capital for a range of different energy and resilience-related investments in coming years.

In addition, the Treasurer's Office advocated for legislation so it can lend up to 2.5 percent of the State's average daily cash balance for investments in green energy production, climate, resilience, and weatherization projects. That 2.5 percent can generate $25 million to $30 million in low-interest loan capacity (as of November 2024), though notably the Treasurer has elected to use this capacity to support bridge loans for towns waiting on FEMA reimbursement following flooding in 2023 and 2024.

We are optimistic about the capacity of RESP loans, the 2.5 percent credit facility, and other existing lending programs, to finance climate investments in Vermont. Given the uncertainty presented by the federal transition, the Treasurer's Office plans to monitor green bank developments at the Federal level and in other states while continuing to look for ways to expand green financing in Vermont.

Initial Recommendation #6: Identifying the Climate Action Office as the climate infrastructure financing and resilience investment information clearinghouse.

The Treasurer's team has worked closely with the Climate Action Office on each item related to climate infrastructure financing, given the central role of the Climate Council and the Climate Action Office in leading the prioritization of climate mitigation issues. The Climate Action Office is also tasked with providing regular reporting on the drawdown of State-supported climate financing programs.

Initial Recommendation #7: Ongoing assessment of equity.

The Treasurer's team engaged the Environmental Justice Office at the Agency of Natural Resources in the design of the first Climate Finance Roundtable. Consistent with the original recommendation, the Treasurer's team should reassess this work prior to further Climate Finance Roundtables or other coordination formats to make sure that the agendas and resources focused on are valuable to low-income, rural, BIPOC, and otherwise underrepresented Vermonters.

Initial Recommendation #8: Establish an Elective Pay Working Group to improve coordination, understanding, and access to these funds for Vermont municipalities and non-profits.

As noted above in the update for Initial Recommendation #2, the Treasurer's Office and the Vermont Bond Bank have coordinated with municipalities, the Vermont League of Cities and Towns, different State agencies, non-profits, utilities, national consultants, and various private actors on what project types are appealing for municipalities and others now eligible for these rebates and what the barriers are to accessing these resources. New on-call CPA capacity at the Vermont Bond Bank is a direct result of these discussions.

SECTION 4 – Funding and Financing Uncertainty with a New Federal Administration

The Inflation Reduction Act may not survive in its current form under a new Federal administration that will take over in January. Some programs may be altered or rescinded and others may continue untouched. Based on information provided by the Government Finance Officers Association (GFOA) at the second Climate Finance Roundtable, below are three ways that the Inflation Reduction Act could be altered. This provides a simple framework for thinking about risk:

- Non-appropriation: Federal funding can be authorized but not appropriated. The IRA, and the IIJA, authorize significant funding across multiple years, but Congress may elect not to appropriate or only partially appropriate, the authorized funds.
- Federal "Clawback:" Federal funds that are not obligated under the IRA may be subject to clawback by Congress, depending on the goals and priorities of the next administration and Congress. Obligated funds are funds that have been transferred to a primary recipient following an agreement with the relevant Federal agency.
- Legislative change: Some programs within the IRA, like Elective Pay, are supported by mandated funding. If an entity completes a project that leverages Elective Pay and secures a 30 percent rebate after that project comes into service, as outlined in the current law, the Federal government would be required to provide that rebate. However, Congress could remove this obligation. Legislative changes have a long timeline, meaning that those who depend on this funding source should have a long lead time to adapt or halt projects if a legislative change is on the horizon.

Finally, another implication of this uncertainty is that the charge to the Treasurer to support efforts to secure more Federal funding is at least in part outdated. State agencies and others are likely focused on finalizing their obligation agreements, and some programs may not continue after January 2025. The Treasurer's team is continuing to emphasize the resilience investment elements of their climate infrastructure financing work, however. Whether the era of widely available Federal funds continues or not, Vermont communities are being impacted by climate-related events regularly. Investments to improve resilience must continue, the Resilience Implementation Strategy provides a framework for efficient thinking about those investments, and the Treasurer's Resilience Investment Working Group does not depend on Federal funding strategies alone.

SECTION 5 – Further Recommendations for Consideration

This section outlines three new recommendations reflecting the ongoing work as well as the new uncertainty about Federal funding and financing options.

First, the Legislature should consider allocating $2 million to renew MTAP funding with a particular emphasis on resilience projects. Whether through the Budget Adjustment Act or a different funding pathway, the first iteration of this program defined multiple projects collaboratively with relatively low-capacity communities. There is an opportunity to complete more of those locally identified, valuable projects and particularly those that have resilience implications.

Second, the State should consider applying for a Safeguarding Tomorrow Revolving Loan Fund capitalization grant. FEMA has capacity remaining to fund these capitalization grants, the Vermont Bond Bank can manage the fund to lessen the burden on Vermont Emergency Management (which must be the applicant and project manager), and the capitalization grant allows for significant funding to be used to support new capacity to manage the grant and loan fund. A new, perhaps $10 million or more revolving loan fund would be a meaningful resource to make a series of resilience investments in high priority projects across the state.

Third, the Treasurer's team should continue efforts to either secure or think creatively about funding or financing options to improve community resilience in the face of severe climate events like floods, droughts, and forest fires. Regardless of the availability of federal funding, the last two years have shown how vulnerable Vermont communities can be to flooding, and the experiences immediately to our south in Massachusetts and to our north in Canada are notable for the extended drought and forest fires dangerously close to population centers. Proactive work here will save significant resources in the future and improve livelihoods, so efforts like the Resilience Investment Working Group have significant value even in periods of less federal engagement.

Thank you.

Appendix A – June Climate Finance Roundtable

Agenda
Climate Finance Roundtable
June 13, 2024
9:00AM – 11:30AM

9:20 – 9:30AM **Welcome and Overview of the Day**
Treasurer Pieciak

9:30 – 10:45AM **Climate Finance Roundtable**
Roundtable discussion: 5 minutes per speaker regarding details on the funding landscape and major programs. Who has applied for what, how can you access that funding, and on what timeline?

Panel 1

- Jane Lazorchak, Director, State Climate Action Office
- Andrew Perchlik, Director, Clean Energy Development Fund, Department of Public Service
- Michael Gaughan, Executive Director, Vermont Bond Bank

Panel 2

- Sarah Waring, Director, USDA-Rural Development
- Candace Morgan, Chief Government and Regulatory Affairs Executive, Green Mountain Power
- Sam Buckley, Director of Energy & Broadband Lending, Vermont Economic Development Agency (VEDA)
- Bill Cahill, VP and General Counsel, Vermont Mutual

10:45 – 11:15AM **Accelerating Progress**
Proposal leveraging Direct Pay (aka Elective Pay), an uncapped program within the Inflation Reduction Act that can benefit municipalities, non-profits, rural energy coops, and others.

- Treasurer Pieciak & Michael Gaughan (Vermont Bond Bank)

11:15 – 11:30AM **Wrap Up & Looking Ahead**
Treasurer Pieciak

Appendix B – November Climate Finance Roundtable

Agenda
Climate Finance Roundtable
November 19, 2024
12:00PM – 3:30PM

12:00 – 1:00pm **Lunch served**
Time intentionally reserved to allow participants to connect with others from different, related sectors. Formal program starts at 12:30pm.

12:30 – 12:45PM **Welcome and Overview of the Day**
Purpose & Goals of the Meeting, Additional Considerations, Explanation of the Agenda.

- Gavin Boyles, Deputy Treasurer

12:45 – 1:10PM **Orienting Remarks and Q&A**
How could the recent election and new Federal administration impact existing legislation, like the Inflation Reduction Act?

- Emily Brock, Director, Federal Liaison Center
  Government Finance Officers Association (GFOA)

(Facilitator: Gavin Boyles)

1:10 – 1:55PM **Introductory Panel and Q&A**
State efforts to continue to prioritize resilience-related investments, new resources available in Vermont, additional discussion of potential changes with a new Federal administration in January.

- Jane Lazorchak, Climate Action Office
- Michael Gaughan, Vermont Bond Bank
- Sarah Waring, USDA Rural Development

(Facilitator: Gavin Boyles)

2:00 – 3:00PM **Breakouts**
Reflecting feedback from the first Climate Finance Roundtable in June, the event will be structured to allow more detailed discussion on several topics of significant interest.

WHO HAS MONEY AND WHEN CAN YOU APPLY?
Join a discussion with leaders of major State programs, including the Home Energy Rebate programs, Solar for All, Electrify Your Fleet, and more. The goal of this breakout is to learn about the timeline and ways to access these programs and ask questions of the experts.

- Melissa Bailey, Department of Public Service, HOMES, HEAR, & Solar for All
- Andrea Wright and Patrick Murphy, Agency of Transportation, Electrify Your Fleet, VW, DERA, IRA, IRS

(Facilitator: Jane Lazorchak, Climate Action Office)

RECOVERY & RESILIENCE: WHAT'S HAPPENING & WHAT WE NEED
Join a conversation with the leaders of the State's recovery from the July 2023 and 2024 flooding, hazard mitigation programs, and major financing programs. The goal is a clear understanding of the cost, the allocation of Federal funds, and a sense of current needs and priorities.

- Doug Farnham, Chief Recovery Officer
- Stephanie Smith, Hazard Mitigation Officer
- Gavin Boyles, Treasurer's Office

(Facilitator: Ashlynn Doyon, Treasurer's Office)

NEW WAYS TO THINK ABOUT CAPACITY CHALLENGES
That we face significant capacity challenges at the local level is generally accepted. What programs have been useful outside Vermont at augmenting local capacity? And are there new ways that Vermont organizations are leveraging AI tools to address capacity limitations? The goal of this breakout is to give participants answers to those questions and more.

- Luke McGowan, Bloomberg Philanthropies
- Morgan Hood, VGS
- Emma Spett, UVM Institute for Rural Partnerships

(Facilitator: Brian Lowe, Assembly Theory)

3:10 – 3:30PM **Report Out & Looking Ahead**
Report out from facilitators
Closing comment from the Treasurer Team