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STATE & LOCAL GOVERNMENT

Groundbreaking New Funds for Housing and Communities in the Inflation Reduction Act

By Gregory Heller and Andrea L. Mannino

In August 2022, President Biden signed into law the Inflation Reduction Act of 2022 (IRA), which has been hailed as one of the nation's most significant pieces of legislation relating to environmental sustainability and energy reduction. Additionally, the legislation includes $25 billion across six program areas to invest in the quality, health, and resilience of our nation's housing and communities. These funds come at a critical time as rural, urban, and suburban communities across the U.S. struggle with high costs of housing and energy, coupled with overall inflation. Many of the programs in the IRA, including those highlighted here, are part of the Administration's Justice40 Initiative, which directs 40% of the overall benefits of certain Federal programs to disadvantaged communities.

These funds will be especially significant for helping jurisdictions invest in physical and financial resilience and to mitigate the risk of natural disasters and economic challenges alike. It also provides a focus on investing in housing and communities as a tool for health equity. A key focus of the IRA is that it acknowledges inequities due to past energy, transportation, and infrastructure policies that negatively impacted disadvantaged communities. The programs in the IRA focus on mitigating those inequities through community-driven programs, workforce training, and by directing benefits to low-income residents.

The IRA invests in a variety of programs and tax credits that incentivize renovations and energy efficiency in housing. These programs are administered by five different agencies:

- US Department of Energy (DOE)
- US Department of Housing & Urban Development (HUD)
- US Department of Transportation (DOT)
- US Environmental Protection Agency (EPA)
- Internal Revenue Service (IRS)

The programs in the IRA are vast and the funding substantial. Due to the web of programs, different agencies, and complex guidance, government entities will need to be prepared to effectively access the funds and use them to their full potential. Some of these programs will span state agencies and require significant coordination alongside new delivery infrastructure. It is essential for state and local governments to prepare now to maximize the impact and leverage this historic legislation to make the funds available for the people and communities they serve.

Technical Assistance for the Adoption of Building Energy Codes

The IRA provides $1 billion for states and local governments to adopt innovative decarbonization approaches for buildings—surpassing traditional codes by implementing advanced energy codes, zero energy codes, or equivalent standards for substantial energy savings. Of the $1 billion in grant funding, $330 million will go toward adopting the latest building energy codes and $670 million to adopting Zero Energy Codes. Eligible activities include not only adoption of the codes but also related compliance, workforce training, enforcement, tools, and implementation support. State departments of energy and local governments with code-making authority can apply for the competitive funding. Grant recipients are incentivized to coordinate with property owners as stakeholders. The program includes:

- Adopting an energy code for residential buildings that meets the 2021 International Energy Conservation Code or equivalent
- Adopting a code for commercial buildings that meets or exceeds ANSI/ASHRAE/IES Standard 90.1 – 2019 or equivalent
- Implementing a plan for the jurisdiction to achieve full compliance and include active training, enforcement programs, and capacity building for ongoing implementation

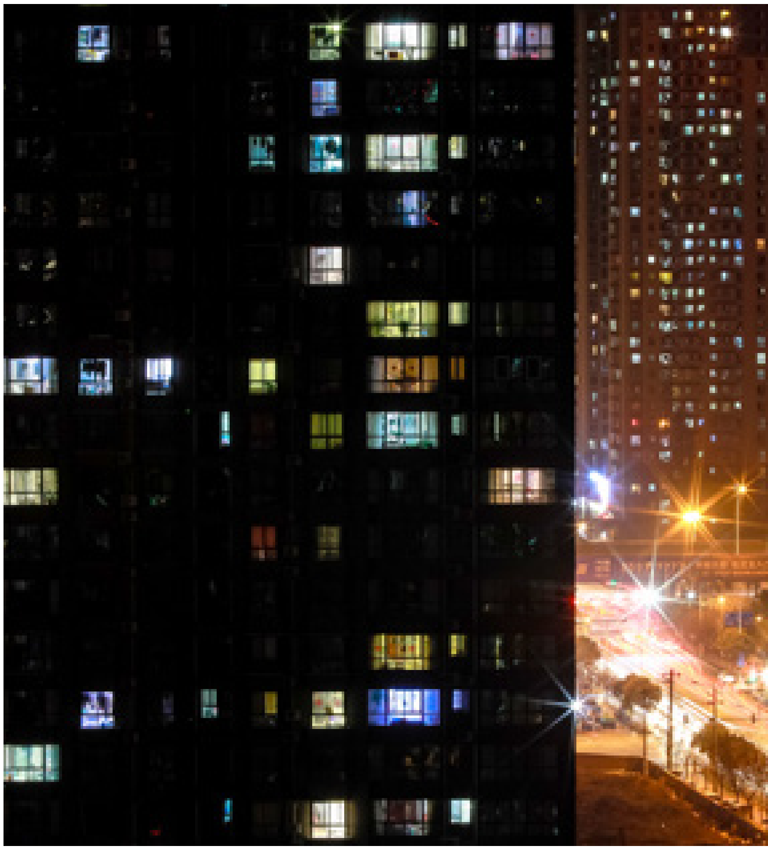
Green and Resilient Retrofit Program

The IRA provides $1 billion in a new program administered by HUD called the Green and Resilient Retrofit Program (GRRP), with $837.5 million specifically for direct loans and grants to developers and owners of properties that receive HUD assistance. This provides a transformational opportunity to renovate and modernize existing affordable housing stock. The goal of the program is to improve energy and water efficiency, enhance indoor air quality and sustainability, improve zero-emission electricity generation, incorporate low-emission building materials or processes, increase energy storage, properly electrify buildings, and address climate resilience in critical housing serving low-income families. The program also includes $42.5 million to conduct energy and water benchmarking of HUD-assisted properties.

HUD has divided the program into three cohorts based on property owners' current capacity to rehabilitate their properties—named "Comprehensive," "Leading Edge," and "Elements." On May 11, 2023, HUD issued Notices of Funding Opportunity for each cohort. The program's awards are based on the cohort: "Elements" will provide up to $40,000 per unit or $750,000 per property; "Leading Edge," will provide up to $60,000 per unit or $10 million per property; and "Comprehensive," will provide up to $80,000 per unit or $20 million per property.

Eligible applicants include owners of properties that receive assistance from:

- Section 202 Housing for the Elderly
- Section 811 Supportive Housing for Persons with Disabilities
- Section 236 program
- Certain Project Based Rental Assistance (PBRA) Contracts, including properties converted under the Rental Assistance Demonstration (RAD) Program prior to September 30, 2021.



Tax Credit Programs and Extenders

The IRA includes extenders on existing tax credit programs for residential property owners and developers that make energy improvements or install clean energy technology in residential properties. Entities eligible to claim the tax credit include homeowners, commercial building property owners (including tax-exempt owners pending Treasury guidance), developers of single-family and multifamily buildings, developers of Low-Income Housing Tax Credit (LIHTC) properties, architects, engineers, and renters for specific improvements and provisions. Local governments can promote the tax credits and help coordinate with energy efficiency contractors and home improvement programs to maximize the allowable tax credits taken by residents.

There are also updates to energy tax credit programs to increase investment in energy efficiency in the construction of Low-Income Housing Tax Credit (LIHTC) properties, and water, solar, and electric facilities located in low-income communities or in conjunction with a low-income housing development. The IRS recently announced the creation of the Low-Income Communities Bonus Credit Program with some of these changes. These tax credits provide opportunities for low-income housing developers to coordinate with renewable energy providers to increase the use of renewable energy services in low-income housing and low-income communities, as well as increase the stock of energy efficient low-income housing. Governments and tax-exempt organizations are eligible for the tax credit through direct pay eligibility provisions. Specific provisions include:

- Exempts LIHTC properties from new basis requirements when taking the energy credit
- Increases in energy credit for wind and solar facilities in low-income communities or are part of a qualified low-income residential building or economic benefit project
- New tax credit for electric facilities placed in service in connection with low-income communities or are part of a qualified low-income residential or economic benefit project

Home Energy Rebate Programs

The DOE will provide $9 billion for states' energy offices to create rebate programs to incentivize residential energy efficiency upgrades that will lower housing costs through rebate programs. The Home Energy Rebate Programs include a local workforce component to train contractors in the new program. There are cost share requirements dependent on homeowner income levels. The program includes:

- $4.3 billion to develop Home Efficiency Rebates, which create financial incentives to retrofit both owner-occupied homes and multifamily properties, with property owners taking direct advantage of the program through the rebate and future energy savings
- $4.5 billion to develop Home Electrification and Appliance Rebates, with funds that can be allocated to both homeowners and some multifamily property owners, to upgrade inefficient and non-electric water heaters, HVAC systems, appliances, and dryers, and improve insulation and air sealing
- $200 million to train contractors in these improvements

The DOE posted an Administrative and Legal Requirements Document on March 23, 2023 providing initial guidance to states on how to access funds for administrative costs ahead of the Home Energy Rebates. States are encouraged to apply for up to 2.5% (not to exceed $2.5 million) of the total funding from each formula allocation of the two rebate programs to support administrative costs. By beginning the work of capacity building, strategic planning, workforce analysis, program coordination, and consumer outreach early, states can reduce the administrative burden and increase the likelihood of success of their rebate programs.

Advancing Environmental Justice

The IRA provides $3 billion for community-driven environment- and climate-focused programs administered by the EPA through the Environmental and Climate Justice Program. This program will address current environmental health inequities and engagement of disadvantaged communities in the public process. The funds can be used for air pollution and other pollution monitoring, investments in low-and-zero-emission technologies, workforce development, mitigating climate risks from urban heat islands, and reducing indoor toxins and air pollution. At the local level, programs will be led by community-based nonprofits. Local governments can partner with stakeholder organizations to assess community environmental needs and invest in infrastructure and community planning improvements.

For 2023, the EPA used these funds to develop three new grant opportunities: the Environmental Justice Thriving Communities Grantmaking (EJ TCGM) program, the Environmental Justice Collaborative Problem-Solving (EJCPS) Cooperative Agreement Program, and the Environmental Justice Government-to-Government (EJG2G) program. EPA opened the applications for these programs in the spring of 2023.

Reducing Climate Pollution in Disadvantaged Communities

The IRA's Greenhouse Gas Reduction Fund, provides $27 billion to finance meaningful climate investments, administered by the EPA, with $8 billion statutorily directed to programs for low-income and disadvantaged communities. The grants can be used to deploy zero-emissions technologies, including distributed technologies on residential rooftops, or reduce or avoid greenhouse gas emissions and other forms of air pollution in low-income and disadvantaged communities. The funds will be issued across three new grant competitions: National Clean Investment Fund ($14 billion), Clean Communities Investment Accelerator ($6 billion), and Solar for All ($7 billion).

The National Clean Investment Fund will be administered by several national nonprofits who will partner with private capital providers to finance clean technology projects with businesses, communities, and community lenders. The Clean Communities Investment Accelerator will be administered by hub nonprofits that can build the financing capacity of a range of community lenders to ensure that low-income and disadvantaged communities have access to financing for clean technology projects. Solar for All will provide up to 60 grants to government entities and nonprofits to prepare low-income and disadvantaged communities to invest in residential and community clean solar energy. The Notices of Funding Opportunities for these three programs are expected to be released in early summer 2023.

Restoring Neighborhood Access and Promoting Equity

The Neighborhood Access and Equity Grant Program provides more than $3 billion in funding for competitive grants administered by the Federal Highway Administration with the goal of mitigating the danger of overbuilt arterial roadways and alleviating negative health impacts of heavily trafficked roads, particularly in disadvantaged communities. Of this funding, $1.262 billion is specifically directed to economically disadvantaged communities with a federal cost share of up to 100%. The program implementation can be spearheaded by government and quasi-government entities to re-envision their community planning and transit infrastructure to create healthier, safer, and more equitable neighborhoods.

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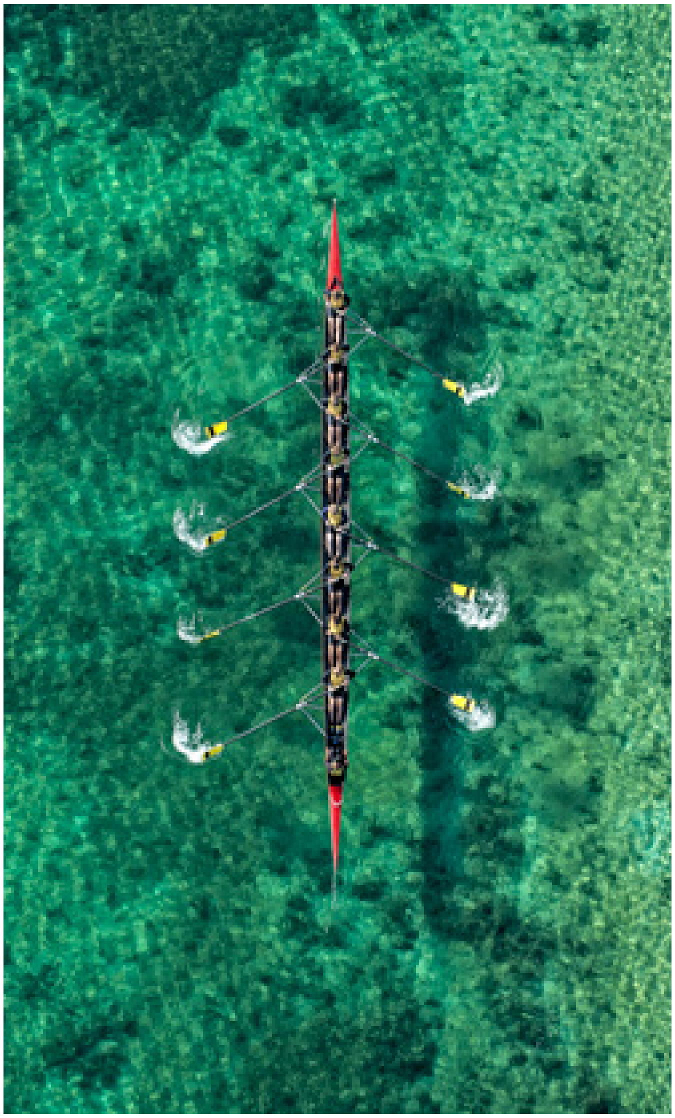

How Guidehouse Can Help

Federal agencies have begun issuing program-specific guidance and some programs have a short timeframe. For instance, the Greenhouse Gas Reduction Funds must be awarded by September 2024. State and local government entities need to move quickly to apply for these programs, develop policies and procedures, understand the process and technology required to administer the programs effectively, and develop a roadmap to move them to implementation. In addition, some of these programs will span multiple state or local agencies, requiring close coordination. In many cases, programs will require significant program design, and development of program delivery infrastructure—such as local place-based partners and customized technology solutions.

Guidehouse specializes in working with state, county, and local governments in implementing large-scale federal programs. We know leading practices in state and local government, energy, and housing, and Guidehouse has a best-in-class proprietary grants management tool that can be customized to meet local needs. If government agencies start preparing now, develop effective cross-agency collaboration, and build the right delivery systems, these programs from the IRA present a unique opportunity to leverage federal funding to ensure that we can invest in healthy, low-cost, affordable housing options for all our citizens located in thriving, resilient communities.

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