

# Recent Federal Funding Opportunities to Help Local Governments Electrify

## Why electrify?

Investments in clean energy and electrification are a win-win-win proposition for local governments. These investments — whether rooftop solar on government buildings, zero-emission municipal buses, or all-electric HVAC systems in schools — can cut costs, increase resilience, and create jobs. They are also the only way to achieve our national, state, and local climate goals.

Municipal governments are highly respected and visible institutions. By embracing and deploying clean energy technologies, local leaders can demonstrate the benefits of those technologies, educate their constituents, and inspire additional action from individuals and businesses.

## Why now?

The Inflation Reduction Act (IRA) and Infrastructure Investment and Jobs Act (IIJA) represent historic federal investments in climate solutions and environmental justice. As always, though, federal clean energy investments are realized at the local level. The ultimate impacts of the IRA and IIJA — on climate pollution, environmental justice, job creation, and economic development — will be determined by how local governments leverage the incentives available to them and communicate the incentives available to their constituents.

The economic case for electrification is also better now than it has ever been. For the first time, local governments and other non taxable entities can utilize clean energy tax incentives through direct pay (also referred to as elective pay) — explained below — in addition to traditional federal grant programs. These tax incentives can cut upfront costs considerably, enabling projects that can reduce energy bills for years to come.

## How Can Local Governments Use Federal Tax Incentives?

The IRA introduced and expanded tax credits for a wide array of clean energy technologies. These kinds of tax credits have long been available to the private sector, but not to local governments and other tax-exempt entities — until now. That’s because the IRA also included game-changing new provisions that will enable tax-exempt entities — like states, local governments, Tribes, schools, municipally owned utilities, and nonprofits including houses of worship, hospitals, and community centers — to utilize clean energy tax credits and take an active role in building the clean energy economy.

The IRA’s direct pay provisions will allow local governments to receive a direct payment equal to the full value of a relevant tax credit. Unlike competitive grant and loan programs (in which applicants are not guaranteed to receive an award), direct pay enables automatic payment if tax-exempt entities meet the requirements for both direct pay and the underlying tax credit. Direct-pay tax credits can be braided and stacked with other sources of project financing, including grants and forgivable loans.

Applicable entities can use direct pay for 12 of the IRA’s tax credits, including for generating clean electricity through solar, wind, and battery storage projects, building community solar projects that bring clean energy to neighborhood families, purchasing clean vehicles for municipal vehicle fleets, and installing EV charging infrastructure.

### How do you apply for direct pay?

More information on how to apply for direct pay will be available by late 2023. Here’s what the IRS is saying so far:

- 1 Identify and pursue the qualifying project or activity.** You will need to know what applicable credit you intend to earn and use direct pay for.
- 2 Determine your tax year, if not already known.** Your tax year will determine the due date for your tax return.
- 3 Complete pre-filing registration with the IRS.** When you complete this process, the IRS will provide you with a registration number for each applicable credit property.
- 4 Satisfy and document all eligibility requirements for the tax credit and any applicable bonus credits.** For example, to claim an energy credit on a solar energy generating project, you would need to place the project in service before making an elective payment election.
- 5 File the required annual tax return by the due date (or extended due date) and make a valid elective payment election.**

## Tax incentives available to local governments

### **Clean Energy Investment Tax Credit (ITC, §48)**

**Description:** The base ITC covers **30%<sup>1</sup> of the cost** of installing solar panels, battery storage, ground-source heat pumps (“geothermal”),<sup>2</sup> and more<sup>3</sup>. Utility-scale projects must meet certain labor requirements<sup>4</sup> to claim the full credit.

→ The ITC can be used for utility-scale projects (like a municipally-owned community solar development) or building-scale projects (like rooftop solar on institutional buildings).

→ **Bonus credits** are available for projects that serve low-income and underserved communities<sup>5</sup>, are located in legacy energy communities<sup>6</sup>, and/or utilize domestic content. These bonuses can potentially increase the value of the ITC to **70% of eligible installation costs**.

→ For direct-pay recipients (including local governments), failure to meet the domestic content requirement can also result in a reduction of the credit amount, unless an exception is granted.<sup>7</sup>

→ The ITC cannot be claimed in conjunction with the Clean Energy Production Tax Credit (PTC).

**Eligibility:** Tax-exempt entities (including local governments) and businesses that invest in clean energy projects.

**Status:** The ITC is available now through at least 2033, and will begin to ramp down after that.

**Agency:** Treasury

**Additional resources:** DOE’s explainer on the ITC for solar projects

### **Clean Energy Production Tax Credit (PTC, §45)**

**Description:** The base PTC provides **\$27.50 per megawatt hour**<sup>9</sup> (adjusted for inflation) for the first 10 years of production at qualifying renewable electricity production facilities, including solar, geothermal, and more.<sup>10</sup> Utility-scale projects must meet certain labor requirements<sup>11</sup> to claim the full credit.

→ The PTC can be used for utility-scale projects (like a municipal-owned community solar development) or building-scale projects (like rooftop solar on institutional buildings).

→ **Bonus credits** are available for projects that are

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1. The amount of the credit is reduced for projects that are financed by tax-exempt bonds. In such cases, the credit is reduced by up to 15% (e.g. 30% down to 25.5%). This potential reduction is a factor to consider when choosing to issue tax-exempt or taxable bonds.

2. Ground-source heat pumps use ambient heat stored in the ground (under or next to a building, for example) to heat and cool buildings, whereas an air-source heat pump uses ambient heat stored in the air. Because underground temperatures are more stable and moderate than air temperatures, ground-source heat pumps can be even more efficient than air-source heat pumps.

3. Including fuel cells, waste energy recovery, combined heat and power, and small wind property.

4. Including prevailing wage requirements (workers must be paid at least the current rate for similar projects in a given geography) and apprenticeship standards (qualified apprentices must complete 12.5% of total labor hours on projects beginning construction in 2023 and 15% on projects beginning in 2024 or later). If the labor requirements are not met, the credit falls to 6%.

5. IRS guidance on the low-income community bonus was proposed in June 2023 and is expected to be finalized by fall 2023. The low-income community bonus is a competitive award that must be applied for, unlike the other bonuses for legacy energy communities and domestic content.

6. DOE has also published a map of energy communities. (Note that as of July 2023, the map does not yet show areas that qualify as energy communities due to certain levels of employment in and tax revenue from fossil fuels.)

7. If an otherwise eligible project does not meet domestic content requirements, its direct payment will be reduced by 10% if construction begins in 2024, 15% if construction begins in 2025, and 100% if construction begins in 2026 or later. The ITC includes exceptions to this rule if the domestic content requirements raise costs by more than 25% or if domestically produced materials are insufficiently available. IRS plans to release future guidance on these exceptions.

8. In 2025, the ITC will switch from prescribed technologies to a technology-neutral tax credit (called the “Clean Electricity Investment Credit”), provided electricity is produced with zero greenhouse gas emissions.

9. The amount of the credit is reduced for projects that are financed by tax-exempt bonds. In such cases, the credit is reduced by up to 15% (e.g. 30% down to 25.5%). This potential reduction is a factor to consider when choosing to issue tax-exempt or taxable bonds.

10. Including biomass, landfill gas, trash, qualified hydropower, and marine and hydrokinetic resources.

11. Including prevailing wage requirements (workers must be paid at least the current rate for similar projects in a given geography) and apprenticeship standards (qualified apprentices must complete 12.5% of total labor hours on projects beginning construction in 2023 and 15% on projects beginning in 2024 or later). If the labor requirements are not met, the credit falls to \$5.50 per megawatt hour.

located in [legacy energy communities](#), and/or utilize [domestic content](#). These bonuses can increase the value of the PTC to **\$33 per megawatt hour**. Unlike the ITC, there is no bonus for projects that serve low-income communities.

→ For direct-pay recipients (including local governments), failure to meet the domestic content requirement can also result in a reduction of the credit amount, unless an exception is granted.<sup>12</sup>

→ Entities pursuing the direct-pay PTC must file annually for the credit.

→ The PTC cannot be claimed in conjunction with the Clean Energy Investment Tax Credit (ITC).

**Eligibility:** Tax-exempt entities (including local governments) and businesses that invest in clean energy projects.

**Status:** The PTC is available now through at least 2033, and will begin to ramp down after that.<sup>13</sup>

**Agency:** Treasury

**Additional resources:** [DOE's explainer on the PTC for solar projects](#)

## **Should you choose the ITC or PTC?**

The ITC and PTC are both valuable incentives that can catalyze clean energy investments. The ITC promises a one-time reduction in upfront costs (which might be more important to local governments on tight budgets), while the PTC can generate a larger overall credit, albeit spread over 10 years. Ultimately, the decision to opt for the ITC or PTC is a balancing act that depends on your priorities, project type, investment costs, bonus eligibility, and expected electricity output.

- 1 Priorities:** The ITC provides upfront savings, while the PTC can provide larger lifetime savings.
- 2 Project type:** Solar, geothermal, and wind power are eligible for the ITC or PTC, but battery storage is eligible only for the ITC.
- 3 Investment costs:** Generally, the higher the investment costs, the more attractive the ITC becomes.
- 4 Bonus eligibility:** Generally, the more bonuses a project can utilize, the more attractive the ITC becomes. Also, while both the ITC and PTC have 10% bonuses for domestic content and legacy energy communities, only the ITC has a 10-20% bonus for projects serving low-income communities.
- 5 Expected electricity output:** Generally, the higher the expected electricity output, the more attractive the PTC becomes.

<sup>12</sup> If an otherwise eligible project does not meet domestic content requirements, its direct payment will be reduced by 10% if construction begins in 2024, 15% if construction begins in 2025, and 100% if construction begins in 2026 or later. The PTC includes exceptions to this rule if the domestic content requirements raise costs by more than 25% or if domestically produced materials are insufficiently available. IRS plans to release future guidance on these exceptions.

<sup>13</sup> In 2025, the PTC will switch from prescribed technologies to a technology-neutral tax credit (called the "Clean Electricity Production Credit"), provided electricity is produced with zero greenhouse gas emissions.

## **Energy Efficient Commercial Buildings Deduction (\$179D)**

**Description:** The [179D tax deduction](#)<sup>14</sup> helps to offset the costs of large-scale retrofits — including heat pumps and other HVAC improvements, heat pump water heaters, building envelope improvements, LED lighting, and more — that are modeled to improve a building’s energy efficiency.<sup>15</sup>

→ The deduction ranges from **\$2.50 to \$5.00<sup>16</sup> per square foot of floor area**, depending on the energy savings achieved and provided the project meets certain [labor requirements](#).<sup>17</sup>

- Retrofits must reduce energy usage by at least 25% to qualify.

→ 179D is not eligible for direct pay. Rather, tax-exempt entities (like local governments) can allocate the value of the deduction to the retrofit plan’s architects, engineers, and/or contractors.

**Eligibility:** Building owners who complete qualified, energy-saving retrofits.

**Status:** Available now through 2032.

**Agency:** Treasury

## **Commercial Clean Vehicle Credit (\$45W)**

**Description:** The [commercial EV tax credit](#) covers up to **30% of the cost** of zero-emission commercial vehicles.<sup>19</sup>

→ The credit is capped at **\$7,500** for vehicles with a gross weight less than 14,000 pounds (like light-duty vehicles and small vans and trucks) and **\$40,000** for vehicles at or above that weight (like buses and large trucks).<sup>20</sup>

→ Unlike the individual EV tax credit, the commercial credit is not subject to domestic content or manufacturing requirements.

**Eligibility:** Tax-exempt entities (including local governments) and businesses that purchase qualified commercial electric vehicles.

**Status:** Available now and for vehicles acquired before 2033.

**Agency:** Treasury

## **Alternative Fuel Vehicle Refueling Property Credit (\$30C)**

**Description:** The [alternative fuel refueling credit](#) covers up to **30% of the cost** of EV chargers and installation, up to **\$100,000 per charger**, provided the project meets certain [labor requirements](#)<sup>21</sup> and is placed in service within a low income or rural census tract.<sup>22</sup>

→ The credit also covers “clean-fuel” refueling properties, like hydrogen pumps.

→ The credit now also applies to bi-directional charging equipment, which can enable vehicle-to-building or vehicle-to-grid electricity storage.

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**14.** Tax deductions are subtracted from an entity’s taxable income, not its tax liability. In other words, the real value of 179D is less than (\$5/sq.ft.), depending on the claimant’s tax bracket.

**15.** Entities must verify and document energy savings through the use of a qualified computer software. IRS plans to release future guidance on this requirement.

**16.** \$5.00/sq.ft. for a 50+% reduction in energy usage.

**17.** Including prevailing wage requirements (workers must be paid at least the current rate for similar projects in a given geography) and apprenticeship standards (qualified apprentices must complete 12.5% of total labor hours on projects beginning construction in 2023 and 15% on projects beginning in 2024 or later). If the labor requirements are not met, the credit falls from \$2.50-\$5.00/sq.ft. to \$0.50-\$1.00/sq.ft.

**18.** A building owner can qualify for the 179D deduction up to once every three years if the owner has completed at least one qualifying energy-efficient system renovation within that timeframe.

**19.** The credit can cover up to 15% of the cost for plug-in hybrid vehicles.

**20.** The credit is also capped by the “incremental cost” of the clean vehicle in question. The incremental cost is the amount by which the purchase price of the clean vehicle exceeds the purchase price of a comparable (in size and use) vehicle powered solely by a gasoline or diesel internal combustion engine. For the 2023 tax year, IRS will use DOE’s “[2022 Incremental Purchase Cost Methodology and Results for Clean Vehicles](#)” report to determine relevant incremental costs. These costs will be updated in future years.

**21.** Including prevailing wage requirements (workers must be paid at least the current rate for similar projects in a given geography) and apprenticeship standards (qualified apprentices must complete 12.5% of total labor hours on projects beginning construction in 2023 and 15% on projects beginning in 2024 or later). If the labor requirements are not met, the credit falls to 6%.

**22.** Low-income census tracts are census tracts [eligible for the New Markets Tax Credit](#). Rural census tracts are census tracts that are not “urban,” as designated by the U.S. Census Bureau.

**Eligibility:** Tax-exempt entities (including local governments) and businesses that install qualified EV charging property.

**Status:** Available now and for property installed before 2033.

**Agency:** Treasury

## Grants and loans available to local government

### Building Energy Code Adoption Technical Assistance

**Description:** The [Technical Assistance for the Adoption of Building Energy Codes program](#) provides competitive grants to states or local governmental bodies with code-making authority to adopt updated building energy codes, zero-energy codes, or equivalent codes or standards. Eligible activities include adoption, compliance, workforce training, enforcement, tools, and implementation support.

→ There is no cost share requirement for this program.

**Eligibility:** States and local governments with authority to adopt building energy codes.

**Total Funding:** \$1 billion

→ \$330 million to adopt the 2021 IECC building energy code for residential buildings, and the ANSI/ASHRAE/IES Standard 90.1–2019 for commercial buildings or other codes and standards that achieve equivalent or greater energy savings.

→ \$670 million to adopt a building energy code that meets or exceeds the zero energy provisions in the 2021 IECC code or other codes and standards with equivalent or greater energy savings.

**Status:** As of July 2023, DOE guidance on the program has not been released and the funds are not yet open for application. DOE expects to announce the notice of funding opportunity in fall 2023. Funds will remain available until September 30, 2029 or until fully expended.

**Agency:** Department of Energy

### Energy Efficiency and Conservation Block Grants

**Description:** The [Energy Efficiency and Conservation](#)

[Block Grant Program](#) provides formula and competitive grants to assist states, local governments, and Tribes to reduce energy use and fossil fuel emissions while enhancing energy efficiency. Eligible uses of funds may include the development and implementation of energy efficiency and conservation strategies, residential and commercial building energy audits, financial incentive programs for energy efficiency improvements, energy distribution technologies (including distributed energy resources), onsite renewable energy generation, and more.

→ There is no cost share requirement for this program.

**Eligibility:** States, local governments, and Tribes

**Total Funding:** \$550 million

→ \$430 million in [formula grants](#) allocated to [states](#), [local governments](#) (limited to cities that have a population at or above 35,000 or are among the 10 most populous cities in a given state), and [Tribes](#). Within the \$123 million reserved for states, 60% of the funding must be passed through to smaller communities that are ineligible for direct allocations.

→ \$8.8 million in competitive funding for small local governments (or “teams” of local governments) that are ineligible for direct allocations.

**Status:** Formula grant pre-award information sheets are due July 31, 2023. Local governments then have until January 31, 2024 to apply. See the [EECBG Application Hub](#) for more information. Funds will remain available until fully expended. Local governments interested in applying for the competitive funding must have submitted a concept paper by June 5, 2023.

**Agency:** Department of Energy

### Climate Pollution Reduction Grants

**Description:** The [Climate Pollution Reduction Grants program](#) provides grants to help states and local governments plan and implement programs, policies, measures, and projects that will achieve or facilitate the reduction of climate pollution.

→ There is no cost share requirement for this program.

**Eligibility:** States, local governments, Tribes, and territories

**Total Funding:** \$5 billion

→ Planning Grants: \$250 million in formula grants to develop plans to reduce climate pollution. Available to all states and territories, and many municipal governments and Tribal nations.

→ Implementation Grants: \$4.6 billion in competitive grants to support plan implementation. The Implementation Grants will be open to entities that received Planning Grants to develop climate pollution reduction plans or are otherwise covered by such a plan.

**Status:** The first stage of the Climate Pollution Reduction Grants Program – the Planning Grants – launched in 2023 and nearly all states and eligible MSAs submitted a Notice of Intent to Participate. EPA expects to announce the notice of funding opportunity for the Implementation Grants in fall 2023, with applications due in the first quarter of the calendar year 2024.

**Agency:** Environmental Protection Agency

### **Environmental and Climate Justice Block Grants**

**Description:** The Environmental and Climate Justice Program provides grants to eligible entities to implement environmental and climate justice activities that benefit underserved and overburdened communities. Funds may be used to fund climate resiliency, adaptation, and mitigation activities; indoor toxic and air pollution reductions; community-led pollution monitoring and management; resilience or emissions reduction technologies and infrastructure; related workforce development; and engagement of disadvantaged communities in public processes.

→ There is no cost share requirement for this program.

**Eligibility:** Community-based nonprofit organizations (CBOs) and partnerships between CBOs and Indian tribes, local governments, and higher education institutions.

**Total Funding:** \$3 billion, including \$2.8 billion for financial assistance and \$200 million for technical assistance

**Status:** EPA has announced three funding opportunities under the Environmental and Climate Justice Block Grants Program, representing \$650 million out of the \$3 billion in total funding: 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. The first application period for these three opportunities has now closed. Funds will remain available until September 30, 2026 or until fully expended.

**Agency:** Environmental Protection Agency

### **Greenhouse Gas Reduction Fund**

**Description:** The Greenhouse Gas Reduction Fund provides grants and low-cost financing to mobilize private capital, reduce greenhouse gas emissions, and deliver the benefits of these pollution reduction projects to American communities. There will be three grant competitions under GGRF:

→ a \$7 billion Solar for All competition to provide up to 60 grants to eligible entities (including states, local governments, and coalitions of local governments) to advance residential and community solar investment in low-income and disadvantaged communities;

→ a \$14 billion National Clean Investment Fund competition to fund two or three national nonprofits to deploy low-cost financing to businesses, communities, lenders, and other entities (at least 40% of which must go to low-income and disadvantaged communities);

→ and a \$6 billion Clean Communities Investment Accelerator competition to fund two to seven hub nonprofits to build clean financing capacity of lending networks in low-income and disadvantaged communities.

→ There is no cost share requirement for this program.

**Eligibility:** States, Tribes, local governments, and nonprofit community financing institutions that invest in projects that reduce climate pollution and advance cleaner air and healthier communities.

**Total Funding:** \$27 billion

**Status:** The Notices of Funding Opportunity (NOFOs) for the Solar for All competition, the National Clean Investment Fund, and the Clean Communities Investment Accelerator have been released, with application deadlines in fall 2023. Initial capitalization grants will be made before September 30, 2024.

**Agency:** Environmental Protection Agency



**Additional resources:** [GGRF Implementation Framework](#), [Greenhouse Gas Reduction Fund-Compliant Solar Program Design for States](#)

## **Clean Ports Program**

**Description:** The [Clean Ports Program](#) provides rebates and competitive grants to reduce pollution and increase resilience at ports in low-income and disadvantaged communities. Funding can support the development of climate action plans to reduce air pollutants as well as the procurement and installation of zero-emission port equipment and technology.

**Eligibility:** States, local, and tribal governments with jurisdiction over ports; port authorities; air pollution control agencies

**Total Funding:** \$3 billion

**Status:** As of July 2023, EPA guidance on the program has not been released and the funds are not yet open for application. Funds will remain available until September 30, 2027 or until fully expended.

**Agency:** Environmental Protection Agency

## **Clean Heavy-Duty Vehicles**

**Description:** The [Clean Heavy-Duty Vehicle Program](#) provides competitive grants and/or rebates to eligible recipients to replace existing heavy-duty vehicles with clean, zero-emission vehicles, support zero-emission vehicle infrastructure, train and develop workers, and support planning and technical activities.

**Eligibility:** States, municipalities, Tribes, nonprofit school transportation associations

**Total Funding:** \$1 billion

**Status:** As of July 2023, EPA guidance on the program has not been released and the funds are not yet open for application. The funding opportunity will likely open in late 2023. Funds will remain available until September 30, 2031 or until fully expended.

**Agency:** Environmental Protection Agency

## **Charging and Fueling Infrastructure Grant Program**

**Description:** The [Charging and Fueling Infrastructure Discretionary Grant Program](#) is a competitive grant program to deploy publicly accessible electric vehicle charging.<sup>23</sup> The program provides two categories of grants: Corridor Charging (electric vehicle charging along designated alternative fuel corridors) and Community Charging (electric vehicle charging on public roads, schools, parks, and in publicly accessible parking facilities).

→ Federal cost-sharing is up to 80 percent, while applicants must provide the remaining 20 percent.

→ The Community Charging grants will prioritize rural areas, low-and moderate-income neighborhoods, and communities with low ratios of private parking, or high ratios of multi-unit dwellings.

**Eligibility:** States, Local Governments, Tribes, Metropolitan Planning Organizations, and U.S. Territories. Additional eligible entities for “Community Charging” projects include housing authorities, parks authorities, public stadium authorities, public development authorities, and other public authorities with ownership of accessible transportation facilities.

**Total Funding:** \$2.5 billion

**Status:** The opportunity is available annually, through 2026. The applications for the first round of funding (\$700 million for 2022 and 2023) have now closed.

**Agency:** Department of Transportation

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<sup>23</sup> This program is in addition to the \$5 billion [National Electric Vehicle Infrastructure Formula Program](#), which provides formula grants to state governments for an interconnected national network of EV chargers (“alternative fuel corridors”).



## **Additional resources and ways to stay up-to-date**

Funding From The Bipartisan Infrastructure Law (Bil) and Inflation Reduction Act for Municipal, University, School, and Hospital (MUSH) Buildings from Blue Green Alliance

Making Clean Energy Tax Credits Deliver for the Public: A User Guide for Governments, Schools, and Nonprofits from Blue Green Alliance

What Is Elective Pay (aka Direct Pay)? Here's How It Makes Clean Energy Tax Incentives More Accessible from Evergreen Action

A webinar on direct/elective pay for local governments co-hosted by Rewiring America

Climate action and the Inflation Reduction Act: A guide for local government leaders from C40 and Climate Mayors.

Catch the latest updates at [CleanEnergy.gov](https://www.CleanEnergy.gov) and the individual program pages linked throughout this document.

**Join Rewiring America's Local Leaders for Electrification Coalition** to receive our latest updates!