

FACT SHEET: Treasury's Work to Support States, Localities, and Communities in the Climate Transition

March 3, 2022

Recognizing the importance of partnering with state and local governments in ensuring the resilience of the financial system to climate-related risks and expediting the transition to a net-zero economy, the U.S. Department of the Treasury convened a virtual roundtable, "The Climate Transition: Federal Policy and State and Local Government Best Practices," on Thursday, March 3, 2022. In addition to discussing the emerging best practices in climate investments and risk identification among state and local bond issuers, Treasury highlighted its expansive work to support states, localities, and communities across the country in fostering resilience to the impacts of climate change, advancing the transition to a net zero economy, and enabling communities to benefit from the economic opportunities embedded within that transition. Collectively, Treasury's efforts are making available billions of dollars that can be used to promote resilience and sustainability at the state and local levels.

PROMOTING AN EQUITABLE AND SUSTAINABLE RECOVERY AND DRIVING GREEN INVESTMENTS

- **Supporting green projects with the State and Local Fiscal Recovery Funds:** Under the American Rescue Plan Act (ARPA), Treasury administers the [State and Local Fiscal Recovery Funds](#) (SLFRF), which provide \$350 billion to state, local, and Tribal governments across the country to support their response to and recovery from the COVID-19 pandemic. Under Treasury's program rules, state, local, and Tribal governments may direct Fiscal Recovery Funds to advance the transition to a net-zero economy and support infrastructure resilience through improvements to water and sewer infrastructure, green jobs training programs, and energy-efficient home weatherization. Recipients of Fiscal Recovery Funds are also using funds expended under the program's "revenue replacement" provision for government services broadly, such as renewable power


generation, preserving and enhancing natural environments, and energy efficient street lighting, among other uses.

- **Providing small business finance in communities undergoing transition:** Treasury administers the [State Small Business Credit Initiative \(SSBCI\)](#), reauthorized with \$10 billion in the ARPA to provide funding for states, territories, and Tribes to operate credit support and investment programs for small businesses. Treasury's SSBCI guidelines, which set out criteria for providing capital to eligible programs, incentivize eligible jurisdictions to focus programs to businesses in communities undergoing economic transitions, including communities impacted by deindustrialization and energy transitions. The guidelines encourage climate investments resulting in efficient energy use, sustainable jobs, and long-term economic benefits.
- **Promoting energy efficiency and sustainability through tax incentives for homes and buildings:** Treasury is working with the Internal Revenue Service (IRS) to issue new guidance in 2022 to implement legislative changes to the credit for home energy efficiency improvements enacted by the Taxpayer Certainty and Disaster Tax Relief Act of 2020. Treasury and the IRS are also developing guidance to address credits for constructing new energy efficient homes. Additionally, Treasury and the IRS are updating guidance regarding the deduction for constructing or improving energy efficient commercial buildings, including government owned buildings. In addition to clarifying procedures for the allocation of the deduction to designers of government owned building projects, this guidance will implement a progressive energy efficiency standard added by the Taxpayer Certainty and Disaster Tax Relief Act of 2020. Collectively, these tax incentives had an estimated value to taxpayers of \$580 million in 2021.

DISSEMINATING ANALYSIS AND RECOMMENDATIONS TO ADVANCE SHARED CLIMATE PRIORITIES

- **Assessing climate-related gaps in insurance supervision and regulation:** Following on President Biden's Executive Order 14030 (Climate-Related Financial Risk), the Financial Stability Oversight Council's October 2021 climate report, and the growing focus on climate change in the insurance sector, Treasury's Federal Insurance Office (FIO) is [advancing a set of priorities on climate-related issues](#). As part of this effort, FIO is developing a report, for publication by year-end 2022, focused on climate-related

insurance supervision and regulation, with an assessment of climate-related issues or gaps in the supervision and regulation of insurers, including their potential impact on U.S. financial stability. The report may also include initial analyses of selected at-risk insurance markets. FIO will continue to engage with a wide variety of stakeholders on these issues, including state insurance regulators.

- **Assessing the impact of climate change on households and communities:** Treasury is [leading](#) the work of 23 agencies that comprise the Financial Literacy and Education Commission (FLEC) to better understand and articulate climate-related financial risks to households, especially in low-income and historically disadvantaged communities. The FLEC's analysis draws on expertise and data from across the government to (a) assess how households, communities, and the smallest businesses experience the financial impacts of climate change and climate transition; (b) identify which groups and regions will be most impacted; and (c) consider what tools and best practices could be effective at strengthening household resilience to climate-related financial risks and supporting an equitable transition. The FLEC will seek input from state, local, and Tribal governments and other stakeholders to inform its analysis and recommendations for policies and actions that can be implemented by various levels of government to build household climate resilience, to be released in a report later this year.
- **Supporting local research into sustainability, restoration, and protection of Gulf Coast ecosystems:** To help rebuild the economy and ecosystems of the U.S. Gulf Coast, Treasury administers programs that were created by the [RESTORE Act](#)  and funded by civil and administrative penalties from the 2010 Deepwater Horizon oil spill. One of the programs, the [Centers of Excellence Research Grants Program](#), provides funds to nongovernmental entities in the Gulf Region conducting research on topics including coastal and deltaic sustainability, restoration, and protection, as well as coastal fisheries and wildlife ecosystem monitoring. To date, Treasury has obligated over \$40 million to support this research and over 70 research projects have been funded through the program, many of them with important implications for assessing, mitigating, and managing climate risks in the region.

MONITORING CLIMATE-RELATED ISSUES IN MUNICIPAL MARKETS AND IDENTIFYING BEST PRACTICES

- **Supporting state and local governments' tools for financing the climate transition and disclosing climate-related risks:** Treasury supports state and local government efforts to address climate transition and infrastructure resilience, including through the monitoring of municipal financing tools and policies that promote investment in green projects at the state and local level. Treasury's March 3 virtual roundtable is part of an ongoing effort to identify emerging best practices in climate investments, as well as climate risk identification and disclosure strategies. As a follow-up to the roundtable, Treasury will disseminate lessons learned and best practices among its state and local partners and convene municipal market participants to support the advancement of innovative policy at the state and local levels.

PROMOTING RESILIENCE TO EXTREME WEATHER EVENTS

- **Supporting state and local projects in the Gulf Coast that enhance climate resilience:** Under the RESTORE Act, Treasury administers the [Direct Component](#), which makes available a portion of funds from civil and administrative penalties from the 2010 Deepwater Horizon oil spill to Gulf Coast region communities. The Act set forth a wide range of eligible uses for these funds, many of which are directly or indirectly tied to building resilience in the face of climate risks. Many eligible entities under the Act have used their Direct Component funds to support climate resilience, such as (a) building up levees and other flood protection structures; (b) increasing the capacity of stormwater systems and constructing retention ponds to handle increased runoff; or (c) rebuilding and strengthening beaches, dunes, coral reefs, and other ecosystems that were damaged by recent weather-related disasters but can play an important role in mitigating the impact of future disasters. To date, Treasury has awarded grants totaling over \$385 million under this program. On March 7, 2022, Treasury will host a webinar entitled "Leveraging Treasury RESTORE Funds to Support Climate Resilience," which will feature presentations by Treasury-funded recipients and researchers on project methodology and results.
- **Coordinating with interagency partners and state and local governments on a national mitigation framework:** FIO is bringing Treasury expertise to bear through its participation in the [Mitigation Framework Leadership Group \(MitFLG\)](#), a coordinating structure for disaster mitigation across the federal government and with state, local, territorial, and tribal partners nationally. MitFLG's workplan for FY2022 includes providing

support and strategic direction for implementation of the National Mitigation Investment Strategy and coordinating around current Executive Orders on equity and climate change.

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