

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

0220-05912-0009

Date: February 22, 2023

To: Honorable Members of the City Council

From: Matthew W. Szabo, City Administrative Officer



Subject: **INFLATION REDUCTION ACT (C.F. 22-0947)**

RECOMMENDATIONS:

That the Council:

- 1) Instruct the City Administrative Officer (CAO) to notify departments of upcoming grant opportunities related to the Inflation Reduction Act;
- 2) Instruct the CAO to work with the Office of the City Attorney and Office of the Controller to determine and pursue the tax credits for which the City may apply; and,
- 3) Instruct all City departments to continue reporting grant submission approval requests to the CAO to facilitate citywide grant tracking efforts.

SUMMARY

This report is in response to Council-adopted Motion (O'Farrell - Martinez - Krekorian – Price) instructing the City Administrative Officer to report on the Inflation Reduction Act, with recommendations for City departments to maximize funding opportunities that further climate policy goals aimed at eliminating greenhouse gasses, adopting renewable technology and creating a carbon-free city.

Various Inflation Reduction Act (IRA) funding opportunities are available to the City through grants, rebates, and tax credits.

Grant. While it is unclear which specific grant programs will be funded through the IRA, the following are areas in which funds have been appropriated:

- \$1 billion to establish a Clean Heavy-Duty Vehicles Program which will help states, local government, and non-profit school transportation associations to replace certain heavy duty vehicles with zero-emission vehicles.
- \$3 billion to award grants and provide technical assistance for environmentally related activities that benefit disadvantaged communities.
- \$4 billion for western drought response
- \$1 billion to adopt updated building codes
- \$2 billion to reimburse applicants that use low-carbon materials in infrastructure projects
- \$2.25 billion (grants and rebates) for port authorities and other entities to install zero-emission port equipment or technology

- \$837.5 million (grants and loans) for projects that improve energy efficiency, water efficiency, indoor air quality, or sustainability; projects that implement low emission technologies, materials, or processes and projects that address climate resilience.

In accordance with Los Angeles Administrative Code (LAAC) Section 14.6, City departments may submit applications without Mayor and Council approval if 1) no City General Funds, matching funds, or other commitments of City resources are required; 2) the grant application is for a formula and/or entitlement grant or allocation; or 3) the grantor published the Notice of Funding Availability less than 61 days in advance of the application deadline. Mayor and City Council approval, however, must be obtained before accepting and receiving the grant award.

This Office currently tracks and monitors relevant Infrastructure Investment and Jobs Act and other State grant opportunities. IRA grants will be included in this process to ensure that departments are made aware of relevant Notices of Funding Availability (NOFA) for grant funding upon its release. This Office facilitates the grant submission approval process by coordinating department responses, compiling grant application approval requests, and facilitating the approval process through Council. These reports are generally submitted to the Budget, Finance and Innovation Committee, but is also directed to other committees when appropriate.

Tax credit. Out of the \$369 billion in energy security and climate change investments in the IRA, \$290 billion will be provided through tax incentives. The IRA includes provisions for tax exempt entities, such as local governments, to treat certain energy-related tax credit amounts as direct payments of tax. The direct pay mechanism allows the City to take advantage of tax credits that would otherwise only be applicable for tax paying entities and is limited to the following tax credits:

- **Alternative fuel vehicle refueling property**
- Renewable electricity production credit
- Carbon oxide sequestration
- Zero-emission nuclear power production credit
- Production of clean hydrogen
- **Qualified commercial vehicles**
- Advanced manufacturing production credit
- **Clean electricity production credit**
- Clean fuel production credit
- Energy credit
- Qualifying advanced energy project credit
- Clean electricity investment credit

It is anticipated that Council-controlled departments may only be eligible for a limited number of tax credits, bolded in the list above, as much of the tax credits eligible for the direct pay mechanism are related to the production of various forms of energy. A further review will be required once the applicable Internal Revenue Service (IRS) tax code guidance is issued to determine actual eligibility.

FISCAL IMPACT STATEMENT

The recommendations in this report will not result in a General Fund impact.

FINANCIAL POLICIES STATEMENT

To the extent that this report instructs this Office to encourage City departments to pursue special funds, it is in compliance with the City's Financial Policies.

MWS:LC:05230145

BACKGROUND

On August 16, 2022, President Biden signed HR 5376 (Yarmuth), the Inflation Reduction Act (IRA), into law. The IRA makes an investment of \$437 billion towards energy security and climate change (\$369 billion), affordable care act extension (\$64 billion), and western drought resiliency (\$4 billion). The bill's provisions include:

- Tax reform – establishes a 15 percent alternative minimum tax, a one percent non-deductible excise tax on stock buybacks, and providing the Internal Revenue Service with additional resources for taxpayer services and enforcement.
- Medicare reform – lowers prescription drug costs by requiring the Centers for Medicare and Medicaid Services (CMS) to negotiate the price of certain prescription drugs, caps out-of-pocket drug costs, requires drug manufacturers to issue a rebates in certain situations, and removes co-payment requirements for recommended adult vaccines.
- Health Care – extends the Affordable Care Act subsidies and expands eligibility.
- Energy Security – incentivizes production of clean electricity from renewable resources, construction of carbon capture or direct air capture facilities, and zero-emission nuclear electrical power; with additional tax credit for payment of prevailing wages and apprenticeship requirements, and domestic content requirements, and for facilities located in an energy community; production, sale, and use of clean fuels; incentives for the purchase of new and certain previously owned clean vehicles; allows certain tax exempt entities to treat certain energy-related tax credit amounts as direct payments of tax.
- Conservation – funding to the US Department of Agriculture (USDA) for specific conservation programs, provision of technical assistance, a program to quantify carbon sequestration and carbon dioxide, methane, and nitrous oxide emissions.
- Rural Communities – funding to the USDA for programs that generate, store, and use renewable energy in rural communities
- Forestry – funding to the USDA for public and private forests, which include funding for forest restoration, wildfire prevention, environmental reviews, and tree planting.
- US Department of Housing and Urban Development (HUD) – funding to HUD for loans and grants to address affordable housing and climate change issues. Funding for projects that improve energy or water efficiency, enhance indoor air quality, building electrification strategies at eligible properties.
- Energy – funding to the Department of Energy for programs on energy rebates, energy efficiency in buildings, electric transmission, advanced industrial facilities, and other energy matters.
- Drought – funding to the Bureau of Reclamation for drought mitigation efforts in western states.
- Air Pollution – funding to the Environmental Protection Agency (EPA) for programs that monitor and reduce greenhouse gas emissions and other air pollution emissions. Funding for incentives to replace eligible medium- and heavy-duty vehicles with zero-emission vehicles, reduce air pollution at ports, deployment and use of zero-emission technologies including financial and technical assistance for projects in low income and disadvantaged communities; funding for methane emissions reductions program and establishing a charge on methane emissions that exceed a specified level; and funding for environmental and climate justice block grants that benefit disadvantaged communities.
- Infrastructure – funding to the Federal Highway and Administration (FHWA) for neighborhood

access and equity grant program; funding to support the use of low-carbon construction materials and products on federally-funded projects; and funding for emerging and sustainable technologies.