

# Clean Energy Finance Strategy for New Mexico Communities

*Crafted by the State Support Center, in collaboration with TA providers*

*July 25th, 2024*

## Introduction

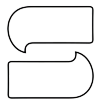
New federal legislation, especially the Inflation Reduction Act (IRA) and the Infrastructure Investment & Jobs Act (IIJA), offers transformative new financing tools that state governments can use to maximize clean energy investment, lower energy costs, create good jobs, attract growing businesses, and create community wealth. A wide variety of projects can benefit from these financing opportunities, including both grid-scale and distributed renewable energy, electric vehicles (EVs) and charging infrastructure, home efficiency projects, industrial decarbonization, and new advanced energy manufacturing facilities – all of which offer major economic, public health, and quality of life benefits.

State governments are critical to ensuring these policies, programs, and incentives are put to use, and that tangible benefits reach people on the ground. The pages that follow guide state leaders in understanding the key new financing tools at their disposal, with a focus on [direct pay](#) (or “elective pay”) clean energy tax credits, the [Greenhouse Gas Reduction Fund](#) (GGRF), and financing from the Department of Energy’s Loan Program Office (LPO) for access by [State Energy Financing Institutions](#) (SEFIs). These new federal financing tools are impactful because they:

- Leverage major new sources of funding
- Drive down clean energy and infrastructure project costs with low interest rate & flexible financing
- Unlock equitable economic opportunities that reduce emissions and provide community benefits

This memo will introduce each of these financing tools in turn and then provide recommendations for how New Mexico can maximize their use, driving clean energy and economic transformation in four key New Mexico communities:

1. Tribes and Pueblos
2. Local Governments, including land grants
3. Coal Communities
4. Permian Region Communities



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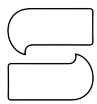
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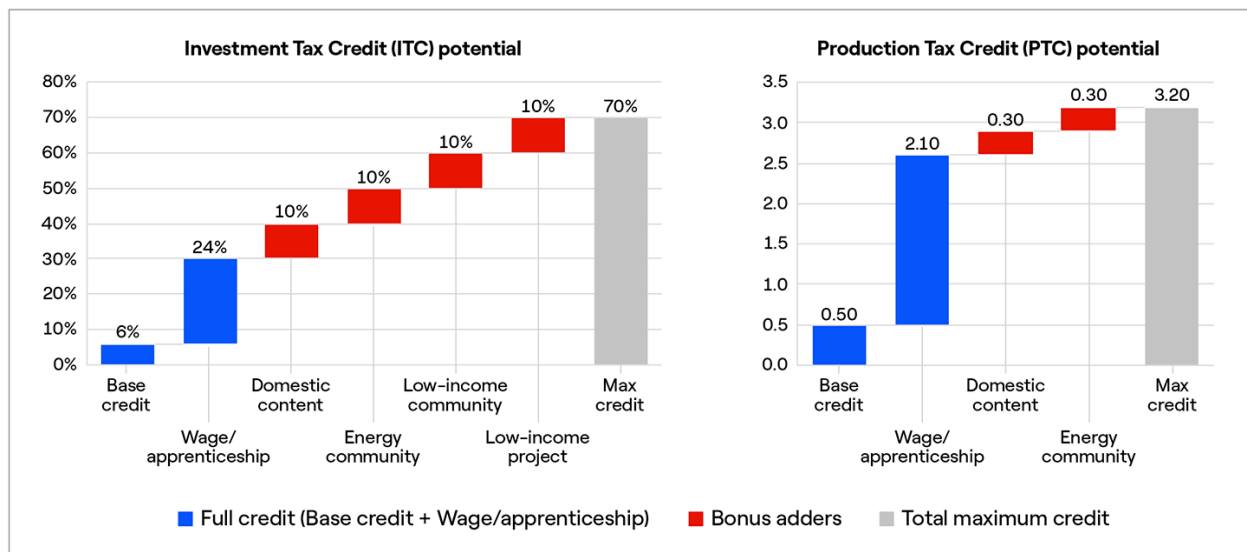


## I. Overview of New Clean Energy Finance Tools & Sources

### Tool 1: Tax Credits & Direct Pay slash the cost of clean energy projects for tax-exempt entities.

The IRA expanded the tax credits available for many clean energy projects, including for solar, battery storage, wind, geothermal, electric vehicles (EVs) and charging infrastructure. These tax credits typically allow for the recovery of 30% of a project’s upfront costs, dramatically improving the financial feasibility and return on investment for the project owner. Bonus adders that apply to Section 48 and Section 45 clean energy tax credits can further increase the tax credit value. Bonus credits are permitted to be stacked (e.g. a theoretical project could recover up to 70% of project costs). These bonus tax credits include:

- Energy Community Tax Credit Bonus for an additional tax credit worth 10% of project costs for those located within a designated energy community, areas where fossil fuel facilities are or were located.
- Domestic Content Tax Credit Bonus offers a 10% bonus for utilizing required quantities of domestically sourced steel, iron, or manufactured products.
- Low-Income Communities Bonus Credit for an additional 10% of the project cost if it is located in a low-income community or on Tribal land. The bonus credit can increase to 20% for projects located at certain federally-subsidized housing sites or that offer at least 50% of the financial benefits of the electricity produced to low income households. This bonus credit is subject to an application process for a limited number of credits.



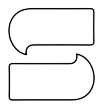


Figure 1. Enel North America’s depiction of stackable tax credit bonuses available under the IRA

**Direct pay (or “elective pay”) expands eligibility for tax credits:** Tax-exempt entities (state and local governments, school districts, nonprofits, publicly-owned utilities and other organizations that do not normally file a federal tax return) are now able to benefit from a dozen of these clean energy tax credits. After placing projects in service and filing for the tax credit, eligible entities will receive a direct cash payment equal to the value of the tax credit. Unlike competitive federal grant and loan programs, in which applicants may not receive an award, direct pay provides that a project will receive payment simply if they meet the eligibility requirements for both direct pay and the underlying tax credit. There is no limit on the amount of projects per year that can claim the tax credits eligible for direct pay.

### List of tax credits and their eligibility under the Inflation Reduction Act

Electricity Fuels Vehicles Manufacturing

		Eligible for transferability	Eligible for direct pay ▼
45, 45Y	Clean electricity production tax credit	✓	✓
48, 48E	Clean electricity investment tax credit	✓	✓
45U	Zero-emission nuclear power production credit	✓	✓
45Q	Credit for carbon oxide sequestration*	✓	✓
45Z	Clean fuel production credit	✓	✓
45V	Clean hydrogen production tax credit*	✓	✓
30C	Alternative fuel vehicle refueling property credit	✓	✓
45W	Credit for qualified commercial clean vehicles	N/A	✓
48C	Advanced energy project credit	✓	✓
45X	Advanced manufacturing production credit*	✓	✓

\* Note: Direct payments for these credits are available to taxable entities for five years.

Source: Source: Legal Information Institute, "26 U.S. Code § 6417 - Elective payment of applicable credits," available at <https://www.law.cornell.edu/uscode/text/26/6417> (last accessed May 2023).

Table: Center for American Progress

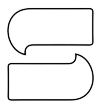


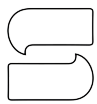
Figure 2. [Center for American Progress](#) chart of IRA tax credits eligible for elective pay.

**How direct pay benefits communities:** This enables nonprofits & governments to more cost-effectively build clean energy projects and secure all the benefits of ownership for their communities. These community benefits may include cost savings on energy bills, revenue from energy systems, and increases in property values.

**Tool 2: The EPA’s Greenhouse Gas Reduction Fund (GGRF) scales the ‘green banking’ industry to offer affordable loans to cut emissions and build clean energy projects in underserved communities.**

The Environmental Protection Agency has awarded \$27 billion to seed the nation’s green finance ecosystem through the Greenhouse Gas Reduction Fund (GGRF). These competitively awarded grants will inject fresh capital into a network of financing organizations to deploy emission-cutting projects in Low-Income and Disadvantaged Communities (LIDACs). This \$27 billion is divided into 3 programs:

- The National Clean Investment Fund (NCIF) awarded \$14B across three awardees that together will serve as a ‘National Green Bank’ of sorts, focused on directly providing financial assistance to aid in the development and deployment of qualified emission-reducing projects. NCIF awardees are expected to leverage private financing at a ratio of seven private dollars for every federal dollar of GGRF funding. GGRF will prioritize equity with at least 40% of capital flowing to LIDAC, consistent with the Justice40 Initiative. NCIF funds are flexible and can be used for most projects that reduce GHG emissions. The three NCIF awardees are:
  - Climate United coalition (Calvert Impact, Community Preservation Corporation, and Self-Help Ventures Fund)
  - Coalition for Green Capital (a national green bank partnering with network of state & local green banks)
  - Power Forward Communities (LISC, Enterprise, Rewiring America, United Way, and Habitat for Humanity) will focus on decarbonizing the housing sector including both multifamily and single family homes.
- The Clean Communities Investment Accelerator (CCIA) awarded \$6B to Community Development Finance Institutions (CDFIs) and community lenders. CCIA’s focus will be providing grants and technical assistance to community lenders, allowing them to finance projects in low income and disadvantaged communities and build lasting capacity for future lending. Loan repayments will be used to finance additional future projects. CCIA funds can be used for distributed renewables, net-zero buildings, and zero-emissions transportation



projects. Chosen for their record of funding projects across underserved communities, the awardees are: Opportunity Finance Network, Inclusiv, Native CDFI Network, Justice Climate Fund, Appalachian Community Capital.

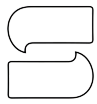
- Solar for All awarded \$7B to sixty state, local, tribal and community groups to deliver residential and community solar for low-income and disadvantaged communities across the country through grants, low-cost financing, and services to streamline siting, permitting, and interconnection of clean energy projects.

### **Tool 3: The Loan Programs Office (LPO) offers low-cost loans for large energy projects supported by State Energy Finance Institutions (SEFIs).**

The Department of Energy's Loan Program Office (LPO) can offer low-cost debt financing for large-scale energy projects (usually greater than \$100 million) that receive [meaningful financial support](#) from an eligible State Energy Financing Institution (SEFI). Qualified projects can include renewable energy, energy storage, electrical generation, transmission, distribution, EV charging infrastructure, fleet electrification, energy efficiency retrofits, critical mineral supply, and industrial decarbonization technologies.

This **financing from LPO is particularly transformative because of its scale**, as it can cover up to 80% of the total project cost. LPO requires a project to have at least 20% in equity financing to protect against potential losses. That means LPO can provide \$80 million in low cost financing for a project portfolio of \$100 million, and dramatically improve the financial feasibility and payback period. Further, LPO financing can be stacked with the tax credits discussed in [Tool 1](#) (although, the same project cannot use LPO financing with other federal grants or loans). It can even help facilitate access to full direct pay tax credits for eligible state and local government entities. For example, because using tax exempt bonds for financing energy projects *may* reduce the amount of tax credits that are available to a given project, LPO financing can preserve the maximum tax credit eligibility, while delivering a low-cost loan.

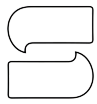
A [SEFI](#) is a state entity that can lend to or invest in energy projects with state funds. An existing Economic Development Agency, Housing Agency, Green Bank, State Energy Office, or Energy Authority, or a new entity established through legislation could all be designated as SEFIs under the right circumstances.



LPO requires “[meaningful financial support](#)” from a SEFI for the project to be eligible for Title 17 funding. The DOE determines whether support is meaningful on a case-by-case basis, and it can be as little as 1-5% of total project costs. By offering SEFI backing through loan guarantees, loan-loss reserves, lending, grants, equity investment, and other strategies, the state financing institution can improve the credit evaluation of a potential borrower from LPO and lower the interest rate premium paid by the borrower.

Projects that receive LPO financing must meet federal requirements that include (but are not limited to) making LPO loans senior debt and abiding by Davis Bacon Act (DBA), National Environmental Policy Act (NEPA), Cargo Preference Act, and, if a governmental organization or nonprofit, Build America Buy America (BABA) domestic content provisions.

[Recommendation 3](#) of this memo provides details on how states can pursue the SEFI/LPO financing strategy, both for a large scale project or for a portfolio of smaller projects. Additionally, Tribal governments have significant flexibility in qualifying for LPO financing, which can be explored further at [this link](#), and investments in existing U.S. energy infrastructure can utilize [Energy Infrastructure Reinvestment \(EIR\)](#) financing through LPO.



## II. Putting it All Together: Developing a Cohesive Strategy for Clean Energy & Climate Finance in your State

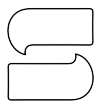
After gaining familiarity with the direct pay, GGRF and LPO financing tools, state leaders should connect those tools to their state's goals and policy priorities. Clean energy and other emission-reduction projects serve as a means to achieve many critical state priorities, as they offer significant economic, health, and equity benefits. Invigorating a local clean energy economy can bring jobs and businesses, lower energy costs, improve housing, enhance air quality, and can create community wealth. Clean energy projects should be prioritized across many state agencies, offices, and programs — not just the energy or environment offices.

At a high level, New Mexico can help attract clean energy investments by keeping the following principles in mind:

1. Increasing awareness of these programs and opportunities in both the public and private sectors helps the network of lenders, developers, and customers gain greater connectivity, and drive project pipeline.
2. These financing tools greatly reduce the cost of capital for these projects; the state can help by further reducing risks and extending low cost of capital options.
3. These programs are designed to revolve and recycle funds — the faster money gets to projects, the faster it can be recycled into more projects.

With these principles in mind, this memo outlines three recommendations to use these financing tools in attracting clean energy and climate finance to achieve state goals, with specific examples for New Mexico communities. .



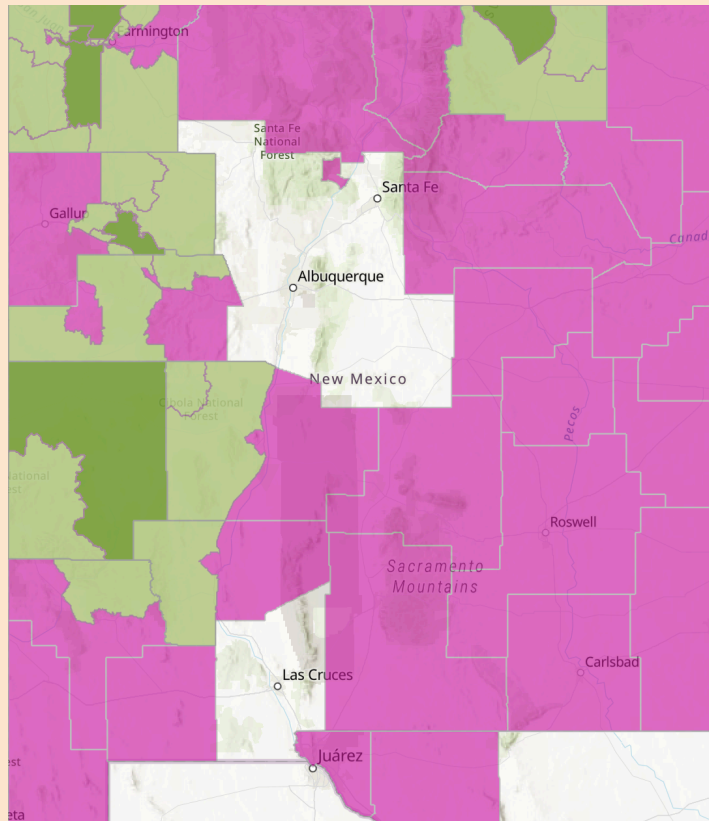


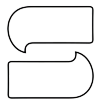
## Recommendation 1: Maximize clean energy investments that can leverage Direct Pay

### Maximizing Direct Pay in New Mexico

**The Investment Tax Credit (ITC)** and **Clean Electricity Investment Tax Credit** provide a 30% base credit for solar, ground-source heat pump, and battery storage projects. Projects located in “**energy communities**” can receive a 10-percentage-point bonus on top of the base credit. An additional 10-percentage-point bonus can be claimed for projects using “**domestic content.**” Tax-exempt entities can apply for the **Low-Income Community (LIC) Tax Credit** for another 20-percentage-points through the U.S. Department of Energy’s (DOE’s) **LIC Bonus Credit Program.**

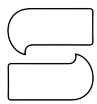
**Energy Communities Bonus Credit:** A majority of Local Governments, Coal Communities, and Permian Region Communities in New Mexico qualify as “energy communities.” Projects in the pink and green areas below can qualify for an additional 10% bonus credit.





**Renewables on Tribe/Pueblo and State Owned Land:** Tribes and Pueblos, Local Governments, Coal Communities, and Permian Region Communities could all benefit from increased utility-scale renewable energy projects on state owned land. The New Mexico state government is already a leader in leasing state owned land for renewable projects, and are now eligible to receive direct pay tax credits for new renewable projects. Tribes and Pueblos have the opportunity to receive this tax credit as well, which can be utilized for generation as well as clean vehicles and other projects. Leveraged with SEFI, the state could utilize these projects to provide low or no-cost energy to low income and disadvantaged communities.

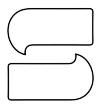
1. **Educate and Share Resources about Direct Pay & Eligible Projects:** Many direct pay-eligible organizations do not know that they can now receive tax credits for building clean energy projects. States are uniquely situated to educate and engage local governments, school districts, and nonprofit community partners to empower them to take advantage of direct pay.
  - a. State governments can share the benefits, lessons learned, and project examples to generate awareness. For example, Michigan Infrastructure Office, Michigan Department of Environment, Great Lakes, and Energy's (EGLE) Office of Climate and Energy [hosted community roundtables with federal officials](#) engaging with local leaders to discuss direct pay.
  - b. States can also provide educational resources, and template forms, provide liaisons and create advisory committees to share knowledge, and track usage and implementation of direct pay to generate new clean energy investments, and connect nonprofit technical assistance services to communities. For instance, some states are procuring shared tax and legal experts to assist nonprofits and local governments in navigating the Direct Pay filing process for the first time. The [Washington State Department of Commerce](#) and [Pennsylvania Governor's Office of Budget](#) have each run competitive RFPs for legal, accounting or consulting services to support tax-exempt entities on understanding, filing for and claiming federal tax credits through elective pay.



- 2. Enable Local Projects Through Project Financing:** Because the direct cash payment is received after the energy project is completed, it can be challenging for owners – especially community-based nonprofits and low-income communities – to fully fund all costs up front. Furthermore, some projects may require additional financial support to be viable, and for states to achieve their equity goals. States can solve this by offering a bridge loan, long-term debt, or credit enhancement to eligible entities to at least cover the lag time between project development and receipt of the Direct Pay tax credit.

  - a. Examples: [Minnesota’s Green Bank offered a bridge loan](#) to finance a ground source heat pump at an affordable housing development. North Carolina created a grant program for schools to [install solar arrays](#).
  - b. States can also help project developers gain access to other low-cost funds, including from GGRF awardees (as described in [Tool 2](#)) that may lend to similar projects or through applying for LPO funding (if there is meaningful financial support from the SEFI, as described in [Tool 3](#)). If public funds are used strategically to de-risk and lower interest rates on borrowers, then these borrowers have a greater ability to receive additional private financing to build the project at hand.
  - c. Other financing support could include: a grant program, general obligation bonds, revolving loan funds (from state energy offices or green banks), and support municipal bond offerings to help leverage funding for new energy projects.
  
- 3. Lead by Example through Project Ownership:** State governments are among those eligible for Direct Pay tax credits. The reduced cost of investing in clean energy should empower states to set and achieve more ambitious emission goals for their own operations. Especially given the low interest rates at which states can borrow, they can often see short payback periods on new clean energy investments and significant cost savings in the long run.

  - a. States should source projects that will improve the operations and emissions profile of state fleets and buildings. Successful projects will require coordination across state agencies, with facility managers involved in developing projects, administrative functions related to tax filings centralized in a single state administrative office such as the comptroller or budget division, and establishment of accounting systems that allow for direct payments to benefit the agencies that devote the time to making these investments .
  - b. States should explore using state-owned land to build larger-scale renewable energy projects that generate revenue on underutilized parcels.
  - c. States can create a revolving loan fund for state agencies to tap to secure up-front financing for state agency projects that are direct pay eligible.



**Recommendation 2: Position your state to attract funds from GGRF awardees and build a high-quality project pipeline.**

**Leveraging New Mexico's CDFI Network for GGRF Funding**

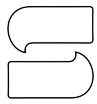
**Tribal and Pueblo:** Native CDFI Network received a \$400 million award from GGRF. They are a nonprofit that serves as a national voice and advocate for the 60+ U.S. Treasury-certified Native CDFIs, which have a mission to address capital access challenges in Native communities. Project examples include distributed renewables, building retrofits, and transportation projects. Contact: [kristen@nativecdfi.net](mailto:kristen@nativecdfi.net)

**Local Governments:** Inclusiv received a \$1.9 billion award from GGRF to deliver capitalization funding, coupled with technical assistance, to credit unions that can direct affordable green loan capital and deep community development expertise to a broad range of eligible projects, including consumer loans for residential solar installations, home charging stations, and energy efficient appliances; real estate lines of credit for decarbonization retrofits of homes and commercial properties; zero-emissions vehicle loans; and business loans for community solar, charging infrastructure, and microgrid projects. Contact: [narabshahi@inclusiv.org](mailto:narabshahi@inclusiv.org)

Opportunity Finance Network received a \$2.29 billion award from GGRF to provide capital and technical assistance to community lenders so that they can invest and reinvest in eligible projects that reduce emissions of greenhouse gasses and other air pollutants in low-income and disadvantaged communities. Elena Gonzales from Homewise CDFI sits on the board of Opportunity Finance Network. Contact: [dwilliams@ofn.org](mailto:dwilliams@ofn.org)

**CDFIs in New Mexico include but are not limited to:**

- Accion, Albuquerque
- Cha Piyeh, Inc.
- Everyone's Federal Credit Union
- First Financial Credit Union
- Guadalupe Credit Union, Santa Fe
- Homewise, Inc., Santa Fe
- High Plains Federal Credit Union
- Native Community Finance, Laguna



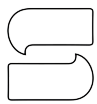
- Navajo Partnership for Housing, Inc., Gallup
- Native American Lending Group, Santa Fe
- New Mexico Community Capital, Albuquerque
- New Mexico Community Development Loan Fund, Albuquerque
- Northern New Mexico School Employees Federal Credit Union
- Nusenda Credit Union
- Rio Grande Credit Union
- Santa Fe Community Housing Trust, Santa Fe
- Tiwa Lending Services, Isleta Pueblo
- Women's Economic SelfSufficiency Team, Albuquerque

The \$27 billion GGRF program dramatically increases the scale of the nonprofit green finance industry, which unlocks new low-cost borrowing opportunities for Low-Income and Disadvantaged Communities to make critical investments in home energy improvements, rooftop and community solar, and other clean energy projects. Deploying this much capital at speed and scale will be challenging. GGRF recipients will need the support of state governments to help build high-quality project pipeline and ensure these projects can quickly secure the funding to be completed, driving significant investment instates that pursue a focused clean energy investment strategy.

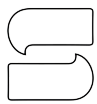
*Prepare Your State To Be Ready for GGRF Deployment*

The table below outlines strategies and concrete steps state leaders can take to improve their GGRF readiness.

<i>Strategy</i>	<i>Action</i>	<i>Potential Steps to Take</i>
<b>Help Financial Institutions Collaborate Effectively</b>	Make introductions & foster in-state relationships for GGRF awardees.	<ul style="list-style-type: none"> <li>- Designate a Governor-Office lead for Greenhouse Gas Reduction Fund (GGRF) financing opportunities for the state.</li> <li>- Identify the <a href="#">NCIE</a>, <a href="#">CCIA</a> and <a href="#">Solar for All</a> recipients (named awardees and sub-awardees) serving the state.</li> <li>- Identify/contact the green bank &amp; existing banking institutions (CDFIs, Credit Unions, community lenders) in your state.</li> <li>- Consider governor/executive branch outreach to CEOs/Directors of NCIF winners to initiate coordination and collaboration.</li> </ul>



<p><b>Support Whole-of-State-Government Approach</b></p>	<p>Explore state alignment with GGRF goals (J40 &amp; 100% LIDAC for CCIA), including by convening relevant state agencies.</p>	<ul style="list-style-type: none"> <li>- Conduct a training or webinar internally for state employees in relevant agencies (e.g., energy, transportation, housing, resilience, finance) to inform them about the program and provide direction to plan ahead to support its implementation.</li> <li>- Solicit input and advice from state executive branch agencies for advice on how existing programs can provide leverage or blending of state resources.</li> <li>- Engage the state’s economic development authority to evaluate where existing efforts to deliver Low-Income and Disadvantaged Community (LIDAC) support dovetail with new financial products offered by GGRF recipients.</li> <li>- Review existing climate plans and targets and identify which goals and objectives dovetail with the GGRF program’s three objectives: (1) cutting carbon pollution; (2) supporting LIDACs; and (3) leveraging GGRF funding with other sources of private and public capital.</li> </ul>
<p><b>Convene the Diverse Parties in the Ecosystem</b></p>	<p>Bring together market participants to foster connectivity and improve market-network effects.</p>	<ul style="list-style-type: none"> <li>- Host a speech or event with stakeholders on financing the clean energy transition in the state.</li> <li>- Host a launch event with a particular GGRF partner or other events to publicize GGRF opportunities in your state.</li> <li>- Hold a roadshow to raise awareness of the opportunity that the GGRF presents.</li> <li>- Invite representatives from GGRF recipients, the White House, Treasury, EPA, Department of Energy to visit LIDACs in your state to raise awareness about GGRF &amp; tax credits. See <a href="#">example from Michigan</a>.</li> <li>- Identify stakeholders involved in GGRF program success and convene them to foster collaboration. Examples: identifying eligible tax-exempt entities seeking development services and support; establishing a network of vetted contractors that can assist with project design and development; matching up appropriate financing based on needs; matching suppliers and EPCs with needs and timelines; enabling group buying rates on equipment or pro/low bono for service providers such as legal, accounting, insurance, banking, engineering procurement and construction, permitting, interconnection, financing documentation, etc.</li> </ul>
<p><b>Foster a High-Impact Project Pipeline</b></p>	<p>Provide resources and/or assistance to streamline pipeline development.</p>	<ul style="list-style-type: none"> <li>- Devote resources (e.g., staff, grants, services) to attract national-level NCIF/CCIA investment into your state. Examples: legal and accounting services (<a href="#">example from WA</a>); grants to low-income, disadvantaged or small business owners, women and minority owned businesses (<a href="#">example from MN</a>); identifying and offering public sites for clean energy projects; launching or expanding climate-ready workforce development (<a href="#">example of American Climate Corps</a>); simplifying or accelerating permitting.</li> <li>- Assist in developing a robust project pipeline, such as by providing suggested public sites (<a href="#">example from NM</a>), simplifying and accelerating permitting processes, supporting workforce/staffing, or considering alternative ownership models; or directly owning and operating clean energy facilities that are now eligible for Elective Pay tax credits and that deliver value to LIDAC households.</li> </ul>



*Create a policy landscape that attracts climate financing & GGRF funds*

In addition to the strategies listed in the table above, state leaders can advocate for a policy landscape that is more conducive to attracting GGRF funds and clean energy investment to the state. [Analysis by the Natural Resources Defense Council \(NRDC\)](#) evaluated the readiness of each state for GGRF deployment and recommended additional actions to further attract investments<sup>1</sup>. In some cases, the IRA may include technical assistance funds to states pursuing these policy objectives. Some enabling policies mentioned in the linked NRDC report include:

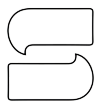
- Renewable portfolio standards (RPS) with a distributed energy carve-out
- Support community renewable energy (especially community solar, which enables customers to subscribe to off-site distributed energy sources through a community partner) enabling legislation with low-income provisions.
- Support net metering and streamline interconnection procedures
- Institute Building Performance Standards (BPS) that require existing buildings to meet greenhouse gas (GHG) emissions or energy performance target
- Ensure building energy codes foster energy efficiency improvements
- Create or expand utility energy efficiency incentive programs
- Set transportation goals to reduce Vehicles Miles Traveled (VMT) and GHGs in transportation planning and public transportation funding strategies.
- Strengthen vehicle emissions standards

**Recommendation 3: Aggregate & invest in large scale project portfolios with LPO financing.**

**LPO Financing Models for New Mexico Communities**

**New Mexico State Owned Land as Meaningful Support:** Local Governments, Coal Communities, and Permian Region Communities could all benefit from increased utility-scale renewable energy projects on state owned land. The Loan Programs Office is open to considering donated state land as ‘meaningful support’ under SEFI Model 3 (below). Contact in LPO for exploration: [hans.riemer@hq.doe.gov](mailto:hans.riemer@hq.doe.gov)

<sup>1</sup> Elizondo, I., & Kent, A. (2024, May 24). Climate Money Is Flowing but Are States Ready for the Greenhouse Gas Reduction Fund? NRDC. <https://www.nrdc.org/resources/climate-money-flowing-are-states-ready-greenhouse-gas-reduction-fund>



**Transitions for Coal Communities and the Permian Region:** While not outlined in this document, title 17 funding from LPO includes financing for Energy Infrastructure Reinvestment (EIR). Projects that retool, repower, repurpose, or replace energy infrastructure that has ceased operations or enable operating energy infrastructure to avoid, reduce, utilize or sequester air pollutants or greenhouse gas emissions. The EIR project category can support a wide range of projects that utilize existing energy infrastructure and revitalize communities, including:

- Upgrading or uprating energy infrastructure so it can restart or operate more efficiently, at higher output, or with lower emissions
- Replacing retired energy infrastructure with clean energy infrastructure
- Building new facilities for clean energy purposes that utilize legacy energy infrastructure

Additionally, the scope of a project receiving EIR financing may include remediation of environmental damage associated with legacy energy infrastructure.

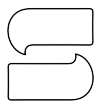
Interested New Mexico projects can request a free pre-application consultation here: <https://www.energy.gov/lpo/request-pre-application-consultation>

As discussed in [Tool 3](#), states that offer meaningful support through State Energy Financing Institutions (SEFIs) can make large-scale clean energy projects (usually greater than \$100 million) eligible for low-cost financing from the Department of Energy’s Loan Program Office (LPO). There are three different models for states to use to unlock LPO financing by using a SEFI. In each model, the state plays a different role: (1) an enabler or investor of a privately-owned project, (2) a project aggregator, facilitating the collection of a portfolio of small projects, or (3) a project owner, developer, and borrower from LPO itself.

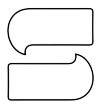
*Three Models for LPO Financing through a SEFI*

Model 1: State as Developer	Model 2: State as Aggregator	Model 3: State as Enabler
<p><b>Summary:</b> The state, through a SEFI, can develop and own a project or an aggregation of projects itself. The SEFI itself can be the developer and LPO borrower, or it can create a Special Purpose Vehicle (SPV) for this process. The state can then lease the projects to other partners, or use the projects in its own operations.</p>	<p><b>Summary:</b> The state can help facilitate the creation of a Consortium in which multiple site hosts &amp; owners develop a standardized project portfolio under a lead project development entity. The Consortium lead entity and LPO borrower can be a Special Purpose Vehicle (SPV) or a third-party company, and the projects could include tax exempt nonprofit organizations and local</p>	<p><b>Summary:</b> The state can actively solicit and connect with qualified projects planned for development or underway, and provide ‘meaningful support’ from a SEFI (1-5% of project costs at a minimum) so these projects can apply for LPO financing directly.</p>

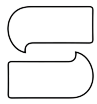




	<p>governments, or private sector owners and developers. The state can support the Consortium lead project aggregation and LPO application. The Consortium lead would be the borrower from the LPO, with the SEFI providing ‘meaningful support’ (the state is not the borrower).</p>	
<p><b>Example Projects:</b> Solar on Schools; EV fleets for local governments; electrification and efficiency at local government buildings; utility scale renewable energy on state-owned lands.</p>	<p><b>Example Projects:</b> Community solar on nonprofit properties; electrification and energy efficiency upgrades at affordable housing complexes; EV charging at colleges, and battery storage at hospitals.</p>	<p><b>Example Projects:</b> Industrial facilities making energy efficiency upgrades; a company building a manufacturing plant for clean energy components.</p>
<p><b>Process:</b></p> <ol style="list-style-type: none"> <li>1. The state identified entities that can serve as SEFIs within the state.</li> <li>2. The state identifies projects that could benefit from SEFI support by issuing a Request for Information (RFI).</li> <li>3. A SEFI identifies a project or aggregation of projects in which it would like to invest. This could include through the Request for Information (RFI) described above, or by a Request for Proposals (RFP) for a Project Development Company to develop projects with site hosts.</li> <li>4. The SEFI provides initial funding for the project, directly or through the creation of a Special Purpose Vehicle (SPV).</li> <li>5. If necessary, the SEFI or SPV signs lease agreements with site hosts (organizations, typically nonprofit or public, at whose facilities clean energy projects will be located). The state or SPV pays the Project Development</li> </ol>	<p><b>Process:</b></p> <ol style="list-style-type: none"> <li>1. The state identified entities that can serve as SEFIs within the state.</li> <li>2. The state identifies projects that could benefit from SEFI support by issuing a Request for Information (RFI).</li> <li>3. The state identifies a Consortium lead. This could include through the issuance of the Request for Information (RFI) described above, or Request for Proposals (RFP) for a Project Development Company to serve as the Consortium lead.</li> <li>4. In collaboration with the Consortium lead, the state helps aggregate a standardized project portfolio of greater than \$100 million. If necessary, the Consortium lead creates an SPV to aggregate projects under one entity.</li> <li>5. Consortium lead acquires at least 20% of total project costs as equity investment from state or local partners, philanthropy, or private partners, to meet LPO requirements.</li> <li>6. The SEFI commits LPO-approved “meaningful financial support” to the</li> </ol>	<p><b>Process:</b></p> <ol style="list-style-type: none"> <li>1. The state identified entities that can serve as SEFIs within the state.</li> <li>2. The state identifies projects that could benefit from SEFI support by issuing a Request for Information (RFI).</li> <li>3. State finds an entity with a new, proposed, or developing qualifying project, and the SEFI provides meaningful financial support through subordinated debt, equity investment, grant, loan-loss reserve, credit guarantee, or other means (greater than 1-5% of project costs). This could include through the issuance of a Request for Information (RFI). Projects may include those already provided with state government financial support and that could now be made eligible for LPO financing.</li> <li>4. State connects the entity with LPO, ensures LPO can certify the state’s financial support with a SEFI ‘meaningful state support’ designation,</li> </ol>



<p>Company to develop the project on behalf of the site hosts (for no money down), and the site hosts agree to lease the project assets (e.g. solar panels) and make lease payments from their energy savings over time back to the SEFI or SPV.</p> <p>6. The SEFI or SPV apply to LPO to secure remaining project financing.</p> <p>7. The SEFI or SPV applies for and receives the relevant tax credits (likely covering 30%+ of project costs).</p> <p>8. Revenues from these projects and tax credits can be used in a revolving loan fund that finances additional projects, through the SEFI or SPV.</p> <p>9. Over time, the SEFI or SPV could revolve ownership of the projects to site hosts, ensuring this ownership transition occurs after the tax credit recapture period.</p>	<p>Consortium lead through subordinated debt, credit enhancements, grants, equity investment, loan-loss reserves, or other means.</p> <p>7. Consortium lead applies to LPO on behalf of the entire portfolio of projects. The Consortium lead will need at least several million dollars for application expenses, much of which can be reimbursed from the first draw on the loan proceeds, as well as the 0.6% commitment fee, which cannot be reimbursed.</p> <p>8. If a SPV is utilized, SPV secures LPO financing and creates a pool for partners to draw from for portfolio projects.</p> <p>9. If SPV utilized, the site hosts for each project borrow from the pool for individual projects, claim tax credits and possibly provide tax credits back as repayment to the SPV.</p> <p>10. With efficient execution, repaid funds can be available to a SPV as cash to support equity requirements for subsequent LPO draws.</p>	<p>and can help the entity apply for LPO financing.</p> <p><b>Note:</b> If your state has already given grants or ‘meaningful financial support’ to ongoing large scale clean energy projects, the state can encourage these entities to apply for LPO financing directly, or the state can aggregate smaller projects into a portfolio and apply to LPO.</p>
<p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>- Lowest borrowing costs due to public credit rating.</li> <li>- Opportunity for positive state leadership</li> <li>- Significant opportunity for widespread, large scale, and incremental community &amp; economic impact.</li> <li>- Maximal opportunity for direct pay tax credit benefits.</li> </ul>	<p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>- Significant opportunity for widespread, large scale, and incremental community &amp; economic impact.</li> <li>- Limited risk for state funds</li> <li>- State is not a direct borrower from LPO</li> <li>- Provides access to low-cost financing for private applicant to LPO.</li> <li>- Develops an ecosystem of new project owners &amp; developers that can foster local market development</li> </ul>	<p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>- Lowest lift model for state</li> <li>- Limited risk for state funds</li> <li>- State is not a direct borrower from LPO</li> <li>- Provides access to low-cost financing for private applicant to LPO.</li> <li>- Increases financial profile, impact, and likelihood of completion of planned projects</li> </ul>
<p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>- State becomes direct borrower to LPO, with greater financial</li> </ul>	<p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>- Increased complexity requires significant coordination resources.</li> </ul>	<p><b>Disadvantages:</b></p>



responsibility for project completion and potential risk for state funds. - Increased complexity and requires significant coordination resources. - Requires significant state leadership.	- Requires significant state leadership to achieve buy-in of project development company and third party partners - May face higher borrowing costs than if the state were the direct borrower from LPO	- May not lead to many new projects if the projects are already planned and bankable without LPO financing - Private sector applicant may receive higher interest rate without public credit rating
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*Taking Action: State Leaders' First Steps Towards SEFI/LPO Financing*

After becoming familiar with the opportunity of LPO financing and potential models for doing so, state leaders can take their first actions by following the steps outlined below.

**1. Identify potential SEFIs in your state**

A state can have multiple entities that could qualify as a SEFI, as long as they can provide meaningful financial support to qualifying clean energy and emissions-reducing projects. These include:

- State Green Banks
- Economic Development Authorities
- Department of Commerce
- Housing Finance Authorities
- State Energy Office

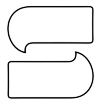
**2. Connect with LPO for pre-application support**

The LPO team can be a resource throughout the application process to provide guidance, feedback, and support. The application timeline is estimated to be one year. LPO provides [guidance documents](#) for drafting an application and meets regularly with potential applicants, starting with [pre-application consultations](#).

**3. Identify potential project types & partnership organizations, through a public Request for Information (RFI)**

The many qualifying project types offer opportunities to get creative in designing projects that maximize community impact. Potential ideas include:

- Maintenance improvements and solar installation on state-owned buildings and lands
- Solar plus storage on schools, colleges, hospitals, public lands, or municipal facilities
- Energy efficiency upgrades, heat pumps, and building electrification for public buildings, hospital systems, affordable housing complexes, and schools.
- Improvements to landfills to reduce methane leaks & emissions
- Electric vehicles & EV charging infrastructure for all municipal vehicles
- The building or renovating of clean energy manufacturing sites in your state

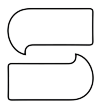


**4. Pick the SEFI/LPO financing model strategy you want to pursue**

Based on the state's economic context and state government capabilities, decide which SEFI model to pursue: state as enabler, state as aggregator, or state as borrower. The SEFI could use many strategies to support the project(s) at hand. Grants or equity investments should be used for newer, riskier project types, while loans should be used for more established technologies. Credit enhancements and loan guarantees can also be utilized.

**5. Connect partnership organizations to plan and apply to LPO**

Bring together site hosts, such as schools, and partners to share in the project vision and financing plan. After project types, partners, and SEFI financing are determined, ensure that agreements are signed to form the SPV (if relevant) and the accompanying leases for the projects. Then, apply to the LPO.



### III. Conclusion

#### **New Mexico Communities will Bloom with Clean Financing**

The tools outlined in this document, Direct Pay, GGRF, and SEFI enable investment and opportunity in new Mexico, and specifically for key communities in transition:

1. Tribes and Pueblos
2. Local Governments, including land grants
3. Coal Communities
4. Permian Region Communities

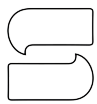
If utilized, Tribes and Pueblos have the opportunity to leverage direct pay for a 30%+ tax credit (depending on adders), supercharge native CDFIs to prioritize green projects through GGRF awardee Native CDFI Network, and compete for SEFI qualification and project financing.

State and non-profit projects in Coal Communities and Permian Communities are eligible for a 40% tax credit through direct pay with the “energy communities” bonus adder, and are prime regions for renewable projects on state land that can potentially qualify as meaningful support for SEFI. These communities also contain a number of CDFIs that if enabled by GGRF awardees, could be low-cost financiers for projects in the region.

Many local government organizations are eligible for direct pay, can be participants in aggregated SEFI projects with state support, and also house CDFIs that are critical for clean energy projects of all sizes.

Through direct project ownership, enabling project aggregation, increasing awareness and education of opportunities with key communities, and more the New Mexico state government has the opportunity to lead the nation in enabling equitable clean energy transitions for communities that need it most.

We hope this memo provides you with a helpful starting place in fostering clean energy investment and positive economic impacts. Please reach out to the State Support Center team for additional resources, guidance, and strategies.

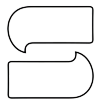


## IV. Appendix 1: Additional Resources & Organizations

If you would like additional guidance and connections to technical assistance expertise, please contact the State Support Center at S2 Strategies by emailing Melissa Cheatham ([melissa@s2strategies.org](mailto:melissa@s2strategies.org)).

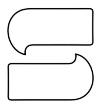
Here are some additional organizations and resources:

- Looking for grant programs and resources for clean energy? Check out the [State Funding Readiness Project](#), [Atlas Climate Portal](#), and [this spreadsheet](#) from Evergreen, RMI, and Climate XChange.
- Lawyers for Good Government (L4GG) (Jillian Blanchard): is a nonprofit with a nationwide network of over 125,000 legal advocates in all 50-states. L4GG has built the [Clean Energy Tax Navigator](#), a one-stop-shop to help entities claim direct pay
- Center for Public Enterprise (CPE) (Paul Williams, Chirag Lala, Yakov Feygin, Advait Arun) is an NGO based in Brooklyn, NY, whose aim is to grow the role for the public sector in the 21st-century economy by helping to establish new public financial and project development institutions that can overcome today's market constraints.
  - CPE created a helpful [Direct Pay/Elective Pay funding model](#) that can help direct pay eligible organizations understand direct pay's impact on the cost of an energy project
  - CPE has also created an overview of the [SEFI carveout](#) for Title 17 financing, and a discussion of how [SPVs can be used](#) to unlock LPO financing.
- Center on Budget & Policy Priorities (CBPP) (Rachel Jacobson, Samantha Jacoby): DC-based progressive non-partisan think tank advancing federal and state policies for broadly-shared prosperity, with a network of 40+ state affiliates advancing progressive state policies.
- Clean Energy States Alliance (CESA) (Vero Bourg-Meyer): A national nonprofit coalition and membership association of state government agencies working together to advance clean energy, with a particular focus on IRA implementation and Solar for All.
- Natural Resources Defense Council (NRDC) (Adam Kent): One of the nation's largest environmental NGOs, with deep knowledge of IRA investments and strong technical, legal finance and modeling expertise on-staff.
- Energy & Climate Solutions Group at Wilson Sonsini (Jaron Goddard): Attorneys offering expertise in clean energy project finance, project development, energy regulatory, and tax law.
- NYU Tax Law Center (Michael Kaercher, Grace Henley): Seeks to protect and strengthen the tax system through rigorous, high-impact legal work in the public interest. The Center provides technical input on tax legislation, comments on tax regulations, and submits amicus



briefs in tax litigation, with the aim of improving the integrity of the tax system, saving and raising revenues, and advancing equity.

- RMI (Whitney Mann, Yuning Liu, and Alisa Petersen): RMI researches, identifies, and develops interventions to transform the energy system for a clean, prosperous, zero-carbon future for all.



## V. Appendix 2: Illustrative Examples

These high level examples that illustrate the types of projects these financing tools can enable:

<p>EV Charging: Advance deployment of zero-emission vehicles and ZEV fueling infrastructure</p>	<p><b>Potential federal grants:</b> Charging &amp; Fueling Infrastructure Grant, Carbon Reduction Program (both through DOT)</p> <p><b>Tax credits:</b> Alternative Fuel Vehicle Refueling Property Credit (30C) covers up to 30% of the cost of EV charging stations if in 30C eligible area and when PWA is met, up to \$100,000. This tax credit is Direct Pay eligible.</p> <p><b>Additional financing:</b> potential for GGRF financing</p>
<p>Solar + Storage for Schools</p>	<p><b>Potential grants:</b> DOE - Renew America’s Schools</p> <p><b>Tax credit:</b> Direct pay eligible for Section 48: Investment Tax Credit, 30%+</p> <p><b>Additional financing:</b> Through GGRF (specifically NCIF program recipients) and potential for SEFI funding, with LPO backing.</p>
<p>Replace existing school buses with zero-emission vehicle school buses in environmental justice communities</p>	<p><b>Potential grants:</b> EPA - Clean School Bus Program; EPA - Diesel Emission Reduction Act (DERA) grants; EPA - Clean Heavy Duty Vehicles Program; USDA - Community Facilities Direct Loan and Grant Program</p> <p><b>Tax credits:</b> Eligible for Direct Pay with Section §45W Commercial Clean Vehicle Credit (Up to \$40,000)</p>
<p>Residential housing project with high energy efficiency standards</p>	<p><b>Potential grants:</b> DOE - Home Energy Rebates, DOE - Energy Efficiency Revolving Loan Fund Capitalization Program</p> <p><b>Tax credits:</b> § 45L New Energy Efficient Home Credit</p> <p><b>Additional financing:</b> GGRF: NCIF could finance incremental cost of efficiency. SEFI: State grants or financing (“meaningful support”) from a housing finance authority could make a bundle of projects eligible for financing, such as loan guarantees, backed by LPO.</p>