GREEN BANKS & THE INFLATION REDUCTION ACT

What Are Green Banks?

Green banks are mission-driven institutions that use innovative financing to accelerate the transition to clean energy and fight climate change. Despite the word "bank" in the name, green banks do not take deposits. They function like loan or investment funds, using a wide array of financial tools to support investment in clean energy infrastructure. Green banks differ in governance from state to state. Some are fully public entities, some are "quasi-public" entities with independent governance structures, and some others are fully independent entities without formal ties to the state. Green banks aim to be financially sustainable, but they are not profit maximizing. They focus instead on using their capital to mobilize as much overall investment as possible to achieve their goals.

How Many Green Banks Are There?

Currently there are 23 green banks in the United States (see fig. 1), though many more are being created. They are all members of the American Green Bank Consortium, a program of the Coalition for Green Capital (which creates and supports green banks and is leading the charge to create a national green bank). Green banks have mobilized $9 billion in overall green investment over the past 10 years using only $2 billion in public funds.

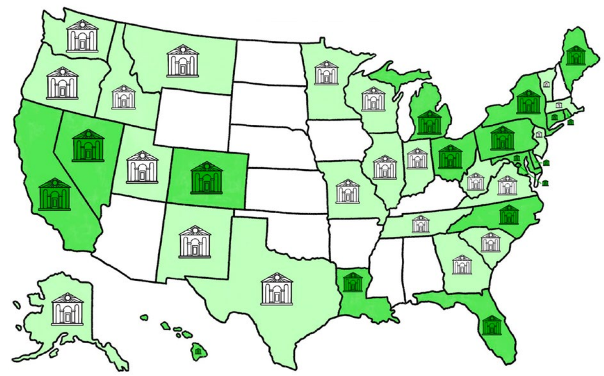

Figure 1: U.S. states with existing (dark green) and proposed (light green) green banks. Source: Coalition for Green Capital

The Connection to the Inflation Reduction Act

How does the Inflation Reduction Act support green banks?

The Inflation Reduction Act creates a new grant program entitled the Greenhouse Gas Reduction Fund (GHGRF). The Greenhouse Gas Reduction Fund has been split into three buckets:

- **National Clean Investment Fund:** $14 billion will be allocated to 2 or 3 larger national nonprofits that will partner with private capital providers to deliver clean technology financing at scale to businesses, communities, community lenders, and others.
- **Clean Communities Investment Accelerator:** $6 billion will be allocated to 2-7 nonprofits to to build the clean financing capacity of networks of community lenders specifically in low-income and disadvantaged communities.
- **Solar for All:** $7 billion will provide up to 60 grants to States, Tribal governments, municipalities, and nonprofits for low-income and disadvantaged communities to access solar investment.

How are state green banks important to the implementation of the Inflation Reduction Act?

While states are directly eligible to apply for the Solar for All Funds, the National Clean Investment Fund and the Clean Communities Investment Accelerator ($20 billion of the funds) must be given to nonprofit entities. These nonprofit entities must in turn invest indirectly in green projects through other local financing entities. State governments that have not created green banks (or public entities that fulfill a very similar function) will struggle to access this $20 billion. States without green banks will have less clear entities to compete for these two funds and might defer responsibility to nonprofit and not-for-profit financing institutions (such as CDFI loan funds, CDFI credit unions, and independent nonprofit green banks) while states that have created green banks will be able to influence decisions about how the funds will be used.

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How Can State Legislators Act to Create a Green Bank?

There are **four common ways** to create a state-sponsored green bank. Each of these approaches can be successful, and states can pursue the path that works best for them politically.

1. Creation of a new institution created by the legislature - States can pass legislation to create a new green bank. Generally, this legislation needs to include a(n):

- Mandate or goal
- Process for selecting the initial board of directors
- Process for perpetuating the board of directors over time
- Initial appropriation, though states can skip this step and create the entity before finding a source of funding for it. Such an entity would likely be able to access IRA and other federal funding opportunities and may be able to find additional philanthropic support.

2. Taking an existing governmental or non-governmental body and expanding its capacity - This can come with an appropriation or not. Generally, it involves amending the entity's charter to add language expanding its charter to include an additional mandate.

3. Housing an entity in the governor's office or treasurer's office - Typically, this involves creating a new office and appropriating money either through new legislation or from an existing budget item.

4. Designate an existing nonprofit as the state's green bank - Typically, the legislature will pass legislation appropriating funds to an agency and direct that agency to make a grant to the specific nonprofit the legislature has designated as the state's green bank.

Green Bank Legislation ('**' indicates bipartisan support)

- ****Nevada S.B.407 (2017):** Established an independent, nonprofit corporation called the Nevada Clean Energy Fund (NCEF) to help finance clean energy projects in Nevada. S.B.407 also created the Board of Directors and set forth the duties of the Board.
- **Colorado S.B.21-230 (2021):** Directed the state treasurer to make an immediate, one-time transfer of $40 million from the general fund to the energy fund administered by the Colorado energy office (CEO). The legislation instructs the CEO to make a grant to the Colorado Clean Energy Fund (Colorado's green bank) of $30 million.
- **Illinois S.B.2408 (2021):** Designated the Illinois Finance Authority as the "Climate Bank" to aid in all respects with providing financial assistance, programs, and products to finance and otherwise develop and implement equitable clean energy opportunities in the State.

Additional Resources

- **Coalition for Green Capital (CGC)**
- **American Green Bank Consortium**
- Inflation Reduction Act Briefing Book - **NCEL**
- How a new national green bank could steer $27B to clean energy projects - **Canary Media**
- 'Transformational': could America's new green bank be a climate gamechanger? - **The Guardian**

This resource was created using content created by Coalition for Green Capital.

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