

December 17, 2020

Subject: Climate Catalyst Fund 2021 Investment Categories

Reporting Period: June - December 2020

Staff Lead: Dan Adler, Governor's Office of Business and Economic Development

Recommended Action

Accept Interim Investment Category Recommendations from the California Infrastructure and Economic Development Bank (IBank) for the Climate Catalyst Fund.

Summary

Assembly Bill 78 (Chapter 10, Statutes of 2020) establishes the Climate Catalyst Fund ("Catalyst Fund" or "Fund") at the California Infrastructure and Economic Development Bank (IBank) to support investment in activities and projects that advance the State's climate change goals related to both to greenhouse gas emissions reduction and climate resilience. The statute directs the California Strategic Growth Council (SGC) and the California Labor and Workforce Development Agency (LWDA) to work with IBank to identify investment categories and report these to the Legislature prior to the end of the calendar year, starting in 2020 (Government Code Section 63048.93(d)).

While the Fund is not yet capitalized, this report outlines preliminary Investment Category recommendations from IBank. SGC's approval of these preliminary recommendations meets the annual deadline included in the Fund's enabling statute. IBank, SGC, and LWDA will continue to refine these categories and will report back to the Council in the event that the fund is capitalized in 2021. This reporting will continue on an annual basis over the life of the Fund, as required in statute.

Background

Assembly Bill (AB) 78, signed into law in June 2020, established the Climate Catalyst Fund at the California Infrastructure and Economic Development Bank (IBank). The Climate Catalyst Fund will provide financial assistance to a broad range of infrastructure critical to the State's climate goals.¹ A *climate catalyst projects* is: "Any building, structure, equipment, infrastructure,

¹ The Catalyst Fund is a key component of the Climate Catalyst Program, managed in partnership between IBank and GO-Biz. In addition to capital support, the Program focuses on two other elements: deep industry engagement, to accelerate growth of climate solutions in the private sector; and inter-agency coordination, to share these sector insights and improve policy and grantmaking.

or other improvement within California, or financing the general needs of any sponsor or participating party for operations or activities within California that are consistent with, and intended to, further California's climate goals, activities that reduce climate risk, and the implementation of low-carbon technology and infrastructure" (Government Code section 63048.92(b)).

The Climate Catalyst Fund statute directs SGC to establish direction for the activities of the Fund. Specifically, SGC, "in consultation with the Labor and Workforce Development Agency, shall advise the Legislature prior to the end of each calendar year, commencing with the calendar year of 2020, of potential categories of climate catalyst projects that would focus on the state's key climate mitigation and resilience priorities. The Strategic Growth Council's recommendations may include indicative percentages of investment allocations across identified priority sectors. The Strategic Growth Council shall inform the bank of the advice provided to the Legislature."

The Climate Catalyst Fund has not yet received funding. However, to continue to advance development of the Fund and implement the statute, IBank and the Governor's Office of Business and Economic Development (GO-Biz) are actively engaged in market development and project identification. This memo outlines preliminary areas for investment ("Investment Categories" or "Categories"). These Categories align with priority action areas to meet the State's greenhouse gas reduction targets and climate resilience goals, especially those specified in recent Executive Orders to accelerate zero emission vehicle (ZEV) and ZEV infrastructure deployment, increase climate resilience, and reduce vehicle miles traveled. In addition, the Fund prioritizes investments to reduce wildfire risk and advance rural economic development.

IBank and GO-Biz anticipate that capital for the Fund will likely become available – potentially from a range of sources – in calendar year 2021. This staff report outlines the initial Investment Categories recommended for the Fund to prioritize, per the requirements of AB 78. However, IBank anticipates continued engagement with SGC and the LWDA as work continues, and IBank will report back to the Council on progress in 2021.

Recommended Investment Categories

Given the early stages of this work, this report does not recommend how to allocate funding, if it becomes available, across Categories. The Climate Catalyst Fund enabling statute does not require inclusion of fund allocation percentages, and IBank will assess whether to include percentages in future recommendations.

Zero-Emission Vehicles and Infrastructure

To support implementation of the Governor's Executive Order [N-79-20](#), and in recognition that transportation-related emissions represent the largest share of our GHG emissions inventory,

the top priority for the Catalyst Fund in 2021 should be capital support for ZEVs and related infrastructure.

Market Approaches to Reduce Wildfire Risk

Reflecting the importance of both minimizing wildfire risk – with its devastating climate impacts – and motivating economic development in rural California communities, the Catalyst Fund should also prioritize investments that advance the State’s goals and values for this sector.

Facilitate Implementation of Executive Order N-19-19

The Catalyst Fund should seek out investment opportunities that can “leverage the State’s \$700 billion investment portfolio to advance California’s climate leadership,” as directed in Executive Order [N-19-19](#) and efficiently connect portfolios of projects to these climate-aligned capital pools.

Opportunities Presented by Federal Stimulus

Finally, the Catalyst Fund should leverage any federal funding that may be forthcoming in the climate infrastructure arena. Where possible, IBank should seek to direct these funds towards the priorities listed above but be prepared to pivot should these funds require a different focus.

Next Steps

GO-Biz and IBank will continue refine investment categories and identify capital for the Catalyst Fund. IBank, LWDA, and SGC staff will report back to the Council as progress continues to capitalize the Fund and on progress in the recommended investment categories.