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## Understanding the Inflation Reduction Act

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# **UNDERSTANDING THE INFLATION REDUCTION ACT**

**San Diego Regional Climate Collaborative**

# CLIMATE INTERSECTIONS

How effectively we deploy climate solutions globally will aid to ensure we avoid the worst impacts of climate change. To do this, we need multifaceted solutions that mitigate, adapt and build resilience to these climate risks. In the past, the complexity of the climate crisis has made it difficult and rare for policy agreement at the federal level between the senate and the house (1). Impacts of climate change exacerbate existing stressors and inequities that are results of our social systems, such as poverty, public health, economic development, infrastructure, food security and many others. Despite these critical intersections, climate change is often seen as an isolated issue that rarely takes priority for policy makers (2,3). Figure 1 below illustrates the critical intersections of climate change impacts and how they may compound existing inequities.



**Wildfire** Amplifies inequities of community resiliency after disaster and distribution of recovery aid. Also causes air pollution, which particularly impacts essential workers and those who work outside.



**Precipitation** impacts water quality and the food system, and will leave the homeless population especially vulnerable to vector borne disease.



**Extreme Heat** impacts those who cannot afford AC, work outside, rely on public transportation, have health conditions, as well as homeless, elderly, and youth populations will be especially vulnerable.



**Sea Level Rise** causes coastal erosion and displacement of coastal communities that will move inland. Who pays versus who benefits from coastal adaptation is a major concern.



**Drought** impacts ecosystems and food system, which will leave the homeless, agricultural workers, and food-insecure populations especially vulnerable.

**Figure 1:** The relationship between the top five climate impacts of concern for the San Diego region and social inequities.

# CLIMATE CHANGE POLICY IN THE USA

For decades, scientific assessments have supported that greenhouse gases (GHGs) are very likely the main driver of warming in the earth's lower atmosphere (1). However, despite this evidence, it wasn't until 1992 that the USA participated in the GHG abatement of the United Nations Framework Convention on Climate Change (UNFCCC). The primary mission of the Convention is to stabilize greenhouse gas concentrations "at a level that would prevent dangerous anthropogenic (human induced) interference with the climate system" (4). The specific GHG levels were set according to the reports from the Intergovernmental Panel on Climate Change (IPCC), which is the United Nations body for assessing climate change science. UNFCCC eventually led to other international negotiations, including the Paris Agreement (PA) in 2015. In 2022, President Biden ordered that at least 40% of federal climate and clean infrastructure investments must benefit people in disadvantaged communities. This executive order is the Justice40 Initiative, which is intended to directly "address the disproportionate health, environmental, economic and climate impacts on disadvantaged communities (5)."

The US has had a variety of legislative proposals to address climate such as: carbon pricing frameworks (e.g., carbon taxes or cap-and-trade programs), sectoral approaches such as a clean energy standard, research funding or tax policies that support GHG-abating technology development and deployment, efforts to increase adaptation, and international cooperation (1).



The cap-and-trade regulation in California has been a key to reducing the state's GHG emissions by creating an economic incentive for investment in clean technology while establishing a declining limit on major sources of GHG emissions (6). In practice, the California Air Resources Board creates a cap equal to the total amount of permissible emissions and one allowance in the cap equals one metric ton of carbon dioxide emissions. Each year, fewer allowances are created and the annual cap declines. With nearly 30 years of attempting to pass climate policy into federal law, the signing of the Inflation Reduction Act (IRA) on August 16th of 2022 launched USA federal climate law into reality. With 369 billion allocated towards mitigating GHGs, electrification, and the green economy, the IRA is the first of its kind for the USA and is a huge step towards adapting to the climate crisis.

## **INFLATION REDUCTION ACT: WHAT IS IT?**

The Inflation Reduction Act (IRA) comes from President Biden's previous proposal known as the Build Back Better Act. The IRA also expands upon the initial climate funding opportunities passed into law in the Infrastructure Investment and Jobs Act (IIJA) which supports projects across electric vehicle (EV) charging, power infrastructure, and climate resilience (7). In short, the IRA is a new law that aims to improve national economic inflation by reducing the deficit, lower costs of prescription drugs, and promote domestic clean energy production that puts the U.S. on track to have a 40% reduction of 2005 emission levels by 2030 (8,9). See Figure 2 below for the breakdown of 369 billion of the IRA funds going towards climate issues.

## **OVERVIEW OF IRA FUNDING & IMPACTS**

The IRA, hopefully, will be the first of many policies that funds climate initiatives and more effectively incentivizes industry to convert to renewable energy sources. Signing the IRA into law gives momentum to the climate change movement and acts as a framework for future legislation to build off of. Additionally, with this new legislative intention and directive to mitigate climate change impacts, the U.S. now has the opportunity to serve as a leader and encourage other countries to follow suit (10).

The IRA has also extended clean energy and electric vehicle tax credits to last a decade in order to promote the transition to renewable energy. A few examples are a 30% tax credit for homeowners who install solar panels, \$7,500 in tax credits for new electric vehicles, \$4,000 for used electric vehicles, and \$14,000 in direct consumer rebates for families to buy heat pumps or other energy efficient home appliances (8). All tax credits are geared towards low and middle-income households. In order to hold large GHG polluters accountable, the IRA is also providing tax credits to industrial manufacturers and utility companies to reduce emissions of manufacturing processes and transition to clean electricity.

Approximately 64.5 billion will be invested in onshore clean energy manufacturing across the full supply chain of clean energy and transportation technologies. There is also a Methane Emissions Reduction Program, which will impose a large fee on natural gas producers who do not comply. This program is realistic, as methane is a short-lived gas if reduction happens quickly, it could save 0.5°C of warming (10).



# IRA Funding Allocations

**\$369 BILLION FOR CLIMATE**



**Figure 2:** Breakdown of how the IRA's 369 billion towards climate issues is being distributed; Environmental Grantmakers Association.

# AN EMPHASIS ON ENVIRONMENTAL JUSTICE

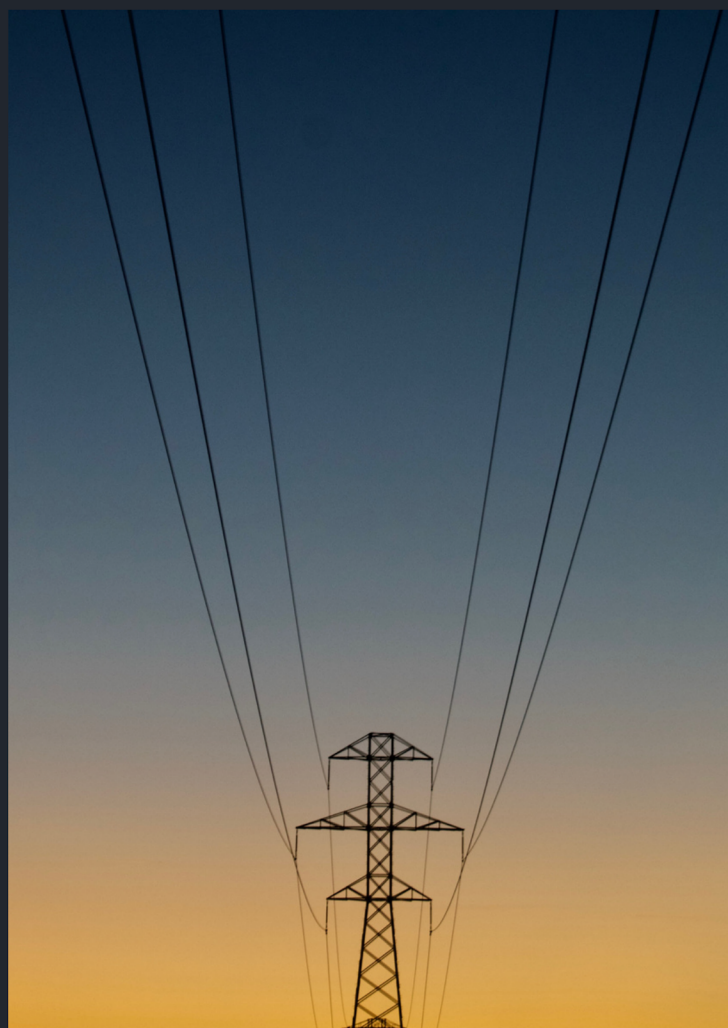
From the IRA alone, approximately 60 billion dollars in funding will be allocated towards environmental justice (EJ) initiatives. Figure 2 (above) highlights the biggest EJ initiatives in the IRA.

A major challenge in the transition towards a clean energy economy lies in the complex relationships between oil manufacturers and disadvantaged communities. Many communities may financially depend on these industries, which can simultaneously worsen and negatively impact public health, cause negative environmental impacts, and in the case for many indigenous communities, take away access to their native lands.

Standing alone, the IRA simply does not protect BIPOC communities enough; many of whom were leading organizations that championed this legislation across the finish line. Although 60 billion is allocated towards EJ, that is only 16% of the total available funding, which is far from the 40% promised by the Justice40 benchmark (11).

The goal of reducing GHG emissions means nothing without effective and well-organized implementation. In order to achieve the scale and urgency of the environmental and economic crisis, a career and talent pipeline needs to be funded and facilitated to fill green jobs in emissions reduction, weatherization, conservation, community resilience, and disaster mitigation (12).

The IRA should not be completely mourned or celebrated until its implementation has begun. However, given the gravity potential of climate change impacts, the IRA should be paired with a national climate emergency declaration (10). In the county of San Diego alone, the cities of Chula Vista, Del Mar, Solana Beach, Encinitas, Carlsbad, La Mesa, and San Diego have all declared a climate emergency (13).







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