EXECUTIVE SUMMARY

Utilizing Economic Power to Manage the Energy and Climate Transitions: A Roadmap for State Policymakers

Today, we are in the midst of two historic transitions: the transition to a clean energy economy and the transition to an ever more unstable climate with more extreme and dangerous weather. States can and should choose to manage both transitions in ways that strengthen their economies, contain the rising costs of living, and protect public health and the environment.

This report identifies the wide range of fiscal and regulatory tools that are available to state policymakers to respond to the two transitions effectively, equitably, and in ways that set up their economies for prosperity and security down the road. Using these tools, states can (1) seize more of the economic opportunities that the energy transition brings and (2) protect people and communities from climate change's enormous financial impacts. Crucially, this includes more affordable electricity and insurance costs.

Today, the U.S. is rapidly falling behind countries that have already begun pulling the financial levers needed to reap the benefits associated with the clean energy transition and reduce climate-related financial risk. For forward-looking U.S. states, the choice is clear. They must exercise their economic power to drive investment in the clean energy economy and help shield their constituents from the rising costs of climate change. By exercising this power, they will demonstrate to markets that, despite federal rollbacks, they are still responsibly managing the clean energy and climate transitions and creating a welcoming environment for private investment.

This report outlines states' legal authorities to help their communities thrive amidst growing climate-related instability and an increasingly recalcitrant federal government. It provides examples of state leadership to date, and offers recommendations for state policymakers to exercise their authorities.

To capture the energy transition's economic opportunities, while investing in community resilience, states have two main policy levers available: green banks and other financing instrumentalities; and pension investment policies. To improve resilience to climate change impacts, promote affordability, and protect the economic well-being of impacted communities, they have three levers: property insurance regulation; disaster readiness and recovery policy; and state banking regulation.

Our full report provides a detailed overview of the policy landscape in each of these issue areas and offers policy recommendations related to how each of the five levers can be deployed for maximum positive impact. Here, we summarize the key concepts and policy recommendations.

Lever 1: Green banks and other state financing instrumentalities

Especially when states cannot access federal support for worthwhile projects, for example, for clean energy and climate resilience projects that the Trump administration opposes, they should be prepared to build their own capacity to create and maintain a public portfolio of projects.

Green banks and other state financing instrumentalities are avenues by which state governments can carry out their industrial policy and market-shaping ambitions. Many states have green banks, and almost all states already have state instrumentalities for financing housing, school construction, industrial facilities, water infrastructure, and transmission lines. States must now ensure that one or more of these designated institutions is authorized and capitalized to prepare, develop, and finance clean energy and climate resilience projects. That requires financial flexibility, political support, and technical understanding of energy markets and climate risks.

We recommend that state policymakers:

1. Support green banks and other state financing instrumentalities through expansive mandates and flexible financing toolkits.
2. Designate the state green bank or other financing instrumentality to coordinate climate- and energy-related projects.
3. Authorize lead underwriting and support capacity-building for underwriting and project preparation.
4. Build market expertise in grid structure and industrial decarbonization to better manage technology demand pathways.
5. Aggregate and standardize projects and financial products to bring them to capital markets.
6. Creatively integrate various sources of catalytic capital.
7. Undercut private lenders as needed.
8. Build benches of private developers that can meet strong labor and community engagement standards.
9. Provide stability for private projects.

Lever 2: State and local pension fund management

Forward-looking public pension plans are already embracing the economic opportunities from the energy transition, recognizing that their investments in the transition can capture enormous benefits for their beneficiaries and fit well within a broader suite of strategies for protecting beneficiaries from the systemic risk posed by climate pollution. With state and local pension plans managing $6.17 trillion of retirement savings for more than 20 million public sector workers and retirees and their families, the strategies they employ to drive decarbonization will have enormous implications for retirement security in the U.S.

State and local pension plans have both the legal authority and fiduciary duty to act on systemic climate risks. These duties apply equally to all involved in setting the plans' investment strategies and those implementing those strategies.

We recommend that state policymakers:

1. Accelerate pension plan financing of clean energy projects, including those at risk due to IRA rollbacks.
2. Update climate risk assessments to incorporate the best available science.
3. Obtain and utilize reliable disclosures of climate information from portfolio companies.
4. Deny primary-market financing for expansion of carbon-intensive operations and value chains.
5. Use proxy voting and engagements with portfolio companies to push them towards transition-aligned pathways.
6. Engage in public advocacy to help drive decarbonization.
7. Hold asset managers and proxy advisors accountable for decarbonizing portfolios and the real economy.

Lever 3: Property insurance regulation

Throughout the United States, property insurance is becoming less affordable and less widely available. This nationwide property insurance crisis is now beginning to destabilize other economic sectors and to spread climate risk throughout the financial system. State policymakers have power to address these risks, since federal law has long established that the business of insurance is predominantly regulated at the state level. Increasingly, state legislators are recognizing the growing salience of insurance and intervening to stabilize their insurance markets. Policymakers must do so in a holistic way that makes communities better positioned to handle climate change over the long term.

We recommend that policymakers in each state:

1. Designate a lead agency to respond to the climate-driven insurance crisis.
2. Increase insurance office capacity and budgets.
3. Integrate climate risk into supervision frameworks.
4. Compel climate risk disclosure and data collection from insurers.
5. Build public catastrophe models.
6. Integrate community resilience-building into pricing and underwriting.
7. Incentivize subrogation claims against fossil fuel companies.
8. Discourage insurers' investments in and underwriting of fossil fuels.
9. Strengthen FAIR plans based on principles of transparency, public governance, and long-term planning.

Lever 4: Disaster readiness and recovery

Climate change is straining state budgets, with disaster recovery and mitigation costs rising steadily. A recent Pew analysis shows that state spending is following the same upward trend as federal disaster spending. Yet, while climate impacts grow and impose greater strains on government budgets, federal support for state disaster spending is shrinking. Mounting costs from climate change demonstrate the clear benefit of building greater capacity to recover from disasters at the state and local level.

We recommend that state policymakers:

1. Adopt a comprehensive disaster and climate resilience strategy that includes a long-term commitment to investment and risk mitigation.
2. Establish programs to embed mitigation and climate adaptation expertise across agencies and communities.
3. Integrate insurance market considerations with climate and disaster preparedness.
4. Invest in updating and modernizing flood maps and other critical vulnerability data.
5. Use building codes and other regulations to improve the durability and resilience of residential and commercial structures.

Lever 5: State banking regulation

State banking regulators have significant legal authority to reduce climate-related risk to financial institutions, strengthen community resilience to disasters, and support investment in the clean energy transition. They also oversee much of the financial system. Their authority covers not only state-chartered banks and savings associations, but also credit unions and certain other nonbank financial companies. State banking regulators have an opportunity to define market baselines for managing climate-related risk at banks, solve challenging tradeoffs using local knowledge, reduce the overall risk in the financial system, improve disaster resilience, and support high-quality investments in the clean energy transition.

We recommend that state policymakers:

1. Incorporate climate risk into prudential regulation and supervision of financial institutions.
2. Collect and share climate-related risk data across regulators.
3. Develop and share best practices, train staff, and support model and scenario development and analysis in partnership with the Network for Greening the Financial System or a similar coalition to adequately fund these efforts.
4. Coordinate with state insurance regulators and other state agencies.
5. Ensure servicers treat affected borrowers fairly in the aftermath of a natural disaster.
6. Use or expand state level Community Reinvestment Acts to encourage climate resilience and community investment in transition.
7. Encourage consistent underwriting and appraisal standards for green improvements to homes.
8. Prevent predatory lending tied to consumer investments in resilience and mitigation.