Re: Comments related to EPA’s Greenhouse Gas Reduction Fund

Dear EPA Environmental Financial Advisory Board:

On behalf of the Natural Resources Defense Council (NRDC), we are pleased to submit these comments focused on the design and implementation of EPA’s newly created Greenhouse Gas Reduction Fund (GHGRF). NRDC is an international nonprofit environmental organization with more than 3 million members and online activists. Since 1970, our lawyers, scientists, and policy advocates have worked to protect the world’s natural resources, public health, and environment.

Over the last decade, NRDC has increasingly focused on how public funds could dramatically increase private investment in the clean energy transition and help to accelerate the shift to a greener, more prosperous economy that benefits everyone. Our experience co-founding and serving as the Secretariat of the global Green Bank Network, our work alongside community development financial institutions (CDFIs) and credit unions charting innovative clean energy models, and our on-the-ground efforts working to equitably deploy clean energy solutions has made clear how critical our financial system is in reducing carbon emissions, bolstering climate resilience, and supporting development that is sustainable and equitable. NRDC’s private/public finance expertise puts us in a unique position to comment on the design and implementation of EPA’s GHGRF, which we believe can be a critical tool in accelerating a more equitable clean energy transition.

We understand that EPA is just beginning the design and implementation process for the GHGRF, and thus our comments for EFAB focus on four key considerations. These four principles will be critical for a fund deployment that appropriately balances the speed at which we need to reduce GHG emissions with the essential work of fueling a sustainable clean energy transition that delivers tangible and lasting benefits to low-income and disadvantaged communities and households.

**Additionality, Market Creation, and Ecosystem Development**

EPA should require applicants to (1) demonstrate how GHGRF funds will accelerate deployment of key GHG-reducing projects and technologies in underserved markets; (2) show how blending public and private capital will drive new market creation and/or market transformation; and (3) articulate clear, measurable equity-based outcomes in addition to pollution-related ones. Given the enormous amount of capital required to reduce GHG emissions and decarbonize our economy, public dollars must be used strategically to rally and redirect private investment into low-carbon, climate-
resilient projects that produce tangible outcomes, especially for low-income and disadvantaged households.

By prioritizing low-income and disadvantaged sectors, EPA can help accelerate GHG-reducing investments in communities that the private market does not broadly serve. These communities and households have an acute need for assistance due to systemic public and private disinvestment and environmental injustices, and there currently exist limited strategies to protect these households from harm resulting from GHG pollution. By focusing on these sectors, the GHGRF can be the lynchpin that induces additional flows of capital that transform and create markets to deliver tangible benefits in communities long overlooked.

Investments that benefit low-income and disadvantaged communities include energy efficiency, electrification, and resiliency investments in buildings and facilities like: (1) affordable housing – both ownership and rental, (2) small and BIPOC-owned businesses, (3) nonprofits, (4) community facilities, and (5) small, religious, and educational institutions. These investments can not only reduce GHG emissions, but also dramatically improve indoor air quality and health outcomes. Where applicable, EPA should also encourage ownership and community control given the long history of capital extraction many low-income and disadvantaged communities have endured. In addition, renewable energy and other zero emission technologies, as well as transportation infrastructure that is located in, serves, and in which such communities have an equity stake also fit this bill. Finally, projects that deliver deep GHG reductions (e.g. deep energy retrofits); are not currently covered by other LMI-focused programs (e.g. pre-weatherization, electrification-ready services, etc.); or deliver grid and resiliency benefits (solar + storage), all are areas where GHGRF funds could be catalytic and further leverage other IRA investments and incentives in these areas.

Correspondingly, GHGRF investment criteria should screen out projects that cannot convincingly demonstrate a need for GHGRF capital to drive project benefits directly and overwhelmingly to low-income and disadvantaged communities. Projects that may fail this “but for” test could include mature technologies such as utility-scale renewables; market segments well-served by current financing such as transmission; and areas that are well funded via other federal provisions in IRA and IIJA. Many non-low-income focused entities – such as corporates, investment-grade rated institutions with no demonstrated mission focus, affluent customers, and commercial real estate developers – do not require public financing assistance to adopt GHG-reducing and decarbonization technologies.

We also encourage EPA to take an ecosystem development approach to GHGRF design and implementation. A mix of grants and financial capital will be needed to fulfill this vision. Financial assistance needs to be more than loans, and include (recoverable and non-recoverable) grants and flexible, low-cost impact investing structures that don’t excessively rely on cash flow from low-income residents. Building community trust, project development, workforce development, small business support, and flexible early-stage financing represent just some of the challenges in finding “investable” projects in low-income and disadvantaged communities.

GHGRF funds should address these issues head-on, and incorporate the necessary capacity building, technical assistance, project development, and community engagement support that will ultimately be needed to deliver a pipeline of GHG-reducing projects with meaningful impacts over the long run. Technical assistance is needed at the community level to educate both households and potential borrowing organizations about decarbonization benefits and strategies, and to connect interested parties to vendors and other project development resources including financing alternatives. In
addition, many lenders would benefit from a technical assistance platform to provide lender education, product information, uniform standards, as well as metrics for decarbonization, professional certification standards for third parties, and capacity building.

In thinking about what ecosystem supports are needed, it may be helpful to think about what each technology or product vertical (e.g. multifamily affordable decarbonization; EVs; etc.) needs to scale and reach all communities. For instance, the financial, technical, and capacity issues associated with delivering community solar to low-income households looks different and requires different solutions than what is needed for net zero new construction affordable housing. By fleshing out the deployment hurdles in each distinct vertical, EPA can take a more tailored and informed approach in its GHGRF design. Additionally, EPA may consider creating selection criteria for awards that specifically ask applicants to describe and address deployment hurdles in each vertical in which the applicant intends to deploy GHGRF resources.

Finally, a critical piece of ecosystem development is a focus on community ownership and wealth building. While it’s true that a major goal of the GHGRF is on the energy demand side – namely, increasing access to clean energy and its co-benefits while decreasing energy costs/burden – like other parts of the IRA (for example, the tax incentives provided for the creation of apprentices), there is great potential for disadvantaged communities to share in the benefits of supplying clean energy. The benefits include (1) expanding the clean energy workforce to community members; (2) increasing the number of small, BIPOC-, and woman-owned business directly or indirectly supporting projects; (3) growing the number of lenders investing in improvements to key community-identified local infrastructure needs as part of project financing; (4) investing profits or surpluses in key community assets; (5) supporting community ownership models like community land trusts and cooperatives as they transition to clean energy; and (6) entering into carried interest or profit-sharing arrangements with partner organizations, individuals, or groups. The EPA should appropriately weigh community ownership and wealth building strategies when designing GHGRF and incentivize consortia with partners (deep impact investors) who can equitably deliver these supply-side outcomes.

Prioritize Low-Income and Disadvantaged Communities and Households Across the Entire $27 Billion

Given $15 billion of the GHGRF is specifically earmarked for low-income and disadvantaged communities, a key decision facing EPA is how to define such communities. We recommend applying the White House’s Justice40 Initiative’s definition of disadvantaged communities\(^1\) as a starting point, and modifying it to include other key climate, energy, and economic factors. Specifically, when applicable, other key variables could be: energy insecurity; energy cost burden; present and anticipated climate impacts; lack of access to credit or capital; and presence and growth of high-quality jobs supported by GHGRF resources. In addition, it will be important for EPA to consider how low-income and disadvantaged communities definitions map to other existing and potentially complementary federal programs, such as New Markets Tax Credit eligible tracts, HUD Multifamily and Public Housing locations, and Low-Income Housing Tax Credit locations. Programs that have track records of insufficiently or ineffectively targeting disadvantaged communities (e.g. Opportunity Zones) should be excluded or cross referenced with other criteria to ensure the integrity of this program.

Second, EPA should structure and award the unrestricted portion of the GHGRF ($11.97 billion) with a priority toward low-income household access, as well as small businesses that may be based outside of a low-income community but still serve it. While many low-income individuals and households live in low-income and disadvantaged communities, many do not. The same is true for BIPOC-owned businesses and other small businesses that low-income households rely on. It is therefore critical that the unrestricted portion of the GHGRF follow similar Justice40 and additionality principles as the place-based $15 billion. We recommend considering the $11.97 billion as “people-based” funds, whereby these funds can also reach low-income households and small businesses who may not specifically be located in a qualified “low income or disadvantaged community” area. EPA should also establish an eligibility testing regime that does not impose undue administrative cost and burden to qualify households or businesses. In addition, GHGRF awardees of this unrestricted pot of funds should similarly demonstrate a mission-based focus as discussed elsewhere in this letter.

Finally, EPA should prioritize low-income and disadvantaged community engagement and outreach in both the development of the GHGRF application, and in the awarding of funds. In the development of the GHGRF application, it may be helpful for EPA to model its community engagement after other federal programs like Department of Energy’s Communities LEAP Program or EPA’s own Brownfields Program, as well as leverage its Regional Offices and the newly established Office of Environmental Justice and External Civil Rights to ensure diverse voices are heard and incorporated throughout the GHGRF implementation process. Any GHGRF awardee should demonstrate a proven track record and commitment to working alongside low-income and disadvantaged communities, as well as environmental and energy justice organizations. This may include community representation at the board and leadership levels; explicit partnerships with environmental or energy justice organizations to inform business models; or committed and funded community engagement plans designed to inform business models.

Fast, Equitable, and Flexible Deployment
To deploy capital quickly and equitably, the GHGRF should route clean energy investments through existing mission-driven institutions and platforms. These entities should have demonstrated track records of successfully deploying capital in low-income and disadvantaged communities either directly or through their networks. EPA should prioritize applicants that have: (1) clear client/borrower networks in low-income and disadvantaged communities; (2) an established lending and/or grantmaking infrastructure, including prudent lending/grantmaking standards and existing products that can be modified to include GHG reduction technologies; (3) a specific and credible commitment to modify existing products to drive GHG reductions; (4) existing reporting frameworks that can be used to track performance; and (5) demonstrated organizational accountability mechanisms to the communities they serve.

These institutions and platforms, such as Community Development Financial Institutions (CDFIs), established Green Banks, Housing Finance Agencies (HFAs), Public Housing Authorities (PHAs), as well as associations of community-based lenders like Credit Unions and Minority Depository Institutions (MDIs), can all deploy GHG-reducing capital quickly to projects in areas that have thus far been overlooked in our country’s clean energy transition. With access to GHGRF capital and technical assistance, lenders can adjust and complement existing loan products – such as predevelopment, rehab, equipment, construction, and refinance loans – to finance GHG reducing technologies. The GHGRF represents a critical opportunity to adapt and leverage the vast existing community and green finance infrastructure throughout the country to pursue GHG reduction goals in low-income and disadvantaged communities.
EPA should afford flexibility to established institutions that meet the above-listed criteria regarding how financing products are designed, how customers are solicited, and how funds are ultimately deployed in GHG reducing projects and technologies. Flexibility will allow lenders to be market-responsive and serve customers with different needs in different geographies. Prescriptive financing products and underwriting methods can hamstring lenders. For example, lenders should have flexibility in how to allocate funding between fully repayable loans, “soft” loans, and grants. While the EPA should afford lenders flexibility to set rates and terms, the benefit of GHGRF zero or low-cost funding should be substantially passed through to project beneficiaries. Explicitly, the EPA should require the all-in financing costs to be less than comparable market terms for similar risked investments. Lenders need flexibility in how to “blend” GHGRF funds with other capital sources (both at the project and balance sheet level). Although such flexibility is beneficial, lenders should be required to report on key outputs and outcomes on a consistent basis with metrics that state GHG reduction and other key goals – such as # and type of households served – per dollar of GHGRF capital grant on a term-consistent basis. EPA should also prescribe GHG measurement methods and technology guidance for lenders, leveraging independent 3rd parties and standardized processes, as well as encouraging shared infrastructures and platforms when applicable.

Complementary to the primary approach discussed above, EPA could also use a smaller tranche of GHGRF funds to invest in and spur new institutions and innovative approaches that address persistent gaps in the marketplace. Such institutions could be new local, state, or regional Green Banks, CDFIs, or nonprofit loan funds. In places where there are limited or insufficient intermediaries to adequately serve low-income and disadvantaged people and communities, EPA should look to invest in new entities that have a business model that explicitly seeks to complement (not compete with) existing institutions (part of the concept of additionality discussed herein). In addition to accountable and inclusive governance and performance standards, such entities should have a credible model to either (1) help bring together commercial, public, and mission-driven capital to drive GHG reduction in low-income and disadvantaged communities not currently met by existing institutions; (2) seek to fill funding gaps (e.g. pre-development, bridge loans, taking on specific risks that established lenders may avoid due to policy restrictions); and/or (3) address specific barriers in local, state, or regional markets inhibiting the existing deployment infrastructure.

Governance and Performance Standards
EPA should award applicants that can credibly demonstrate both (1) inclusive governance practices with responsiveness and accountability to low-income and disadvantaged communities and (2) best practices of nonprofit and financial governance. Other Federal programs, such as those run by US Department of Treasury’s CDFI Fund or the US Department of Health and Human Services Federally Qualified Health Centers, may serve as good examples for EPA to consider when deciding on GHGRF governance parameters. At minimum, consideration should be given to board and leadership representation, board charters, investment/credit policies, as well as organizational policies such as conflicts of interest standards, procurement policies, and document retention. In addition, applicants with a demonstrated track record of effectively stewarding federal and/or state funds through other programs (e.g., Paycheck Protection Program, CDFI Fund, utility ratepayer funds, etc.) should be scored highly. Similarly, indirect regulated recipients of funding, such as credit unions and minority depository institutions should fare well in scoring if they can demonstrate a record of best-in-class regulatory compliance.
EPA should also define clear impact standards and metrics for awardees to drive significant GHG and air pollution reductions, as well as meaningful energy and environmental justice impacts for low-income and disadvantaged communities. Awardees should prioritize meaningful improvements to the lived experience of marginalized and disadvantaged communities through investments in GHG-reducing projects (e.g. % reduction in energy burden and utility shut offs; employment outcomes; projects with clear ties to community ownership; etc.). One potential resource for EPA to consult is University of Michigan’s newly released Energy Equity Project report, which provides a framework to measure and further energy equity outcomes. Ultimately, for the GHGRF to successfully meet Justice40 goals, impacts will need to be focused on people-centered benefits.

We recommend that EPA consider a short list of clear, overarching, quantifiable program outputs and outcomes that all project verticals should measure and evaluate (e.g. GHG reductions, leverage, underserved market location, etc.), and a more tailored set of metrics specific to each project vertical (e.g. building electrification; EVs; etc.). EPA should identify when national, standardized approaches to measuring outcomes could best be applied, when a regional approach makes sense, or when a more local recipient-level reporting is needed. Currently, many green lending entities communicate impact differently. The GHGRF presents an opportunity for EPA to establish clear standards on impact reporting and measurement for all recipients to follow.

In addition, EPA should ensure that GHGRF awardees can rely on independent 3rd-party professionals to provide assessments, validate project scopes, validate GHG savings estimates, and also provide reliable cost estimation services. To the greatest extent possible, EPA should seek to streamline these services to maximize efficiency and reliability, although local/state policy or code may require more tailored approaches in some instances.

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We thank the EFAB and the EPA for their consideration of our comments. If we can be of any further assistance, please do not hesitate to contact us.

Sincerely,

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