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U.S. Environmental Protection Agency
Environmental Financial Advisory Board
1200 Pennsylvania Avenue, NW
Washington, DC 20460

December 5, 2022

RE: Greenhouse Gas Reduction Fund Implementation
EPA-HQ-OA-2022-0859-0001

The Community Builders of Color Coalition (the Coalition) is pleased to provide the following comments in response to the U.S. Environmental Protection Agency (EPA) request for feedback regarding implementation of the Greenhouse Gas Reduction Fund (GHGRF). The Coalition is a group of 9 organizations that are committed to helping historically underserved communities achieve social, economic and climate justice through community development.

Through the GHGRF, EPA has shown its commitment to green energy development in low-income and disadvantaged communities (LIDCs) that have historically found investments in energy efficient alternatives, such as solar energy projects, to be cost prohibitive. However, effective implementation of GHGRF requires a thorough understanding of LIDCs, including, but not limited to, the types of clean energy projects that will yield the greatest impact for members of those communities. With their deep roots and proven track record in the very communities the GHGRF purports to reach, community financial institutions are uniquely positioned to engage with their communities to understand the major problems posed by greenhouse gas (GHG) emissions, demonstrate how an investment in clean energy can alleviate those problems, develop in tandem with them a list of green priorities to pursue, and, finally, offer a road map to achieve those stated priorities.

We strongly recommend EPA explicitly make all certified CDFIs, FDIC-insured MDIs, and credit union MDIs eligible participants. To fully realize the intent of the GHGRF, we must take advantage of the power of the full ecosystem of community financial institutions. This is the most efficient and inclusive way to ensure funds are deployed into projects and activities that advance GHGRF goals and reach deep into LIDC communities. Additionally, we strongly recommend EPA use an equity lens in implementing GHGRF and should prioritize those applications where all members of the coalition are committed to projects that both reduce CO2 emissions and are committed to equity goals. Finally, we recommend that the funding be allocated to multiple Direct Recipient intermediaries. Concentrating all resources into a single national green bank runs the high risk of excluding communities and key segments of the ecosystem.

<u>Low-Income and Disadvantaged Communities</u>

Defining Low-Income and Disadvantaged Communities:
The Inflation Reduction Act of 2022 amended the Clean Air Act to create the GHGRF, which includes $15 billion funding for eligible entities to provide direct and indirect financial and technical

assistance projects that reduce or avoid greenhouse gas (GHG) emissions in “low-income and disadvantaged communities.” EPA does not define such communities, but “low-income communities” have been defined by other government departments. To this end, the Coalition recommends that EPA coordinate with the CDFI Fund in defining LIDCs to ensure its definitions are inclusive of community financial institutions and the LIDCs they serve. Specifically, the Coalition has identified two CDFI Fund terms that the EPA should consider in its definition of “low income and disadvantaged communities.” The preferred option of the Coalition would be for EPA to base its definition of LIDC on the CDFI Fund’s Equitable Recovery Program (ERP) definition of ERP-Eligible Geographies. The CDFI Fund has defined such geographies as census tracts that demonstrate “severe impact” of the COVID-19 pandemic, have a median income at or below 120 percent of the Area Median Income (AMI), and are CDFI Investment Areas or are Native Areas. Alternatively, and at a minimum, the Coalition would recommend as a second option that EPA rely on the CDFI Fund definition of eligible “Target Markets” in crafting the GHGRF definition for LIDC, as it accounts for services provided to borrowers located in such communities. The CDFI Fund defines an approved target market as one or more investment areas[1] or targeted populations[2]. The Coalition believes that these definitions meet the EPA objective of expanding clean energy investments in low-income communities, particularly those that are most susceptible to the adverse environmental and health-related impacts posed by GHG emissions and climate change. Additionally, the Coalition recommends that EPA regularly publish a list of census tracts that meet the requirements of LIDCs, as this will reduce burdens associated with reporting and monitoring.

Technical and/or Financial Assistance:

Community financial institutions (i.e., Treasury-certified CDFIs, FDIC-designated Minority Depository Institutions, Certified Development Corporations, and certain non-profit or governmental microloan intermediaries) possess the same set of competencies that will be needed to finance the clean energy projects envisioned by the GHGRF. However, flexible financial assistance (FA) and technical assistance (TA) will be critical to the successful implementation of GHGRF. FA must not be confined to loans. Instead, an array of long-term, relatively inexpensive capital (e.g., recoverable grants, loan loss reserves, interest rate guarantees, interest rate buydowns, loans, equity investments, etc.) is needed to expand green-focused lending in LIDCs and grant recipients should have the flexibility to utilize those services that will have the greatest impact on reducing GHG emissions in their particular communities. Technical assistance (TA) is needed to provide clarity and consistency around GHGRF goals and enable recipients to build organizational capacity and acquire technology, staff, and other tools necessary to accomplish the activities under a GHGRF award. Additionally, we urge EPA to use and explicitly ensure that ALL community financial institutions are eligible participants in GHGRF for FA and TA. These institutions represent an existing infrastructure of CDFIs, MDIs and credit unions that already specialize in serving the same LIDCs envisioned by

[1] Investment area refers to a geographic area that meets requirements set forth in Title 12, Section 1805.201(b)(3)(ii)(D), of the Code of Federal Regulations with a significant unmet need for loans, equity investments, or other financial products or services or is wholly located within an Empowerment Zone currently in effect or Enterprise Community (as designated under Section 1391 of the Internal Revenue Code of 1986 [26 U.S.C. 1391]).

[2] Target populations consist of individuals from the following populations: Low-income targeted population is defined as individuals whose family income, adjusted for family size, is not more than (1) for metropolitan areas, 80% of the area median family income in metropolitan areas; and (2) for non-metropolitan areas, the greater of 80% of the area median family income or 80% of the statewide non-metropolitan area median family income. Other targeted populations include African Americans, Hispanics, Native Americans, Native Alaskans residing in Alaska, Native Hawaiians residing in Hawaii, other Pacific Islanders residing in other Pacific Islands, and other groups with CDFI Fund approval.

Congress as part of GHGRF. Utilizing this network will enable the GHGRF to quickly deploy capital to households and business in LIDCs.

Many individuals in LIDCs lack a comprehensive understanding of the myriad social, economic, and health benefits that green energy investments can have on the quality of their lives. To this end, community financial institutions will require assistance to develop engagement and educational outreach programs that inform the communities they serve of the multigenerational impact of the climate crisis and how best to combat those impacts in their communities. In addition, GHGRF awardees and impacted communities will require language access resources, clean energy counseling, and financial coaching to help them better understand green energy-related tax rebates and credits, the benefits of energy efficient appliances, and how best to locate contractors that can complete retrofits, etc. Furthermore, GHGRF award recipients will require assistance to conduct market analyses to estimate the impact of GHG emissions on LIDCs, and small business owners, particularly those located in LIDCs, will require a basic curriculum centered around the environmental impact of their business operations. Additionally, to the extent that indirect awardees are receiving debt, TA and FA should provide for rate reduction incentives to indirect awardees with a demonstrated track record of serving LIDCs, similar to the Emergency Capital Investment Program (ECIP), which provided a rate reduction incentive for CDFIs and MDIs either located in persistent poverty counties and businesses with less than $100,000 in revenues or that are majority-owned by individual(s) that are low income and/or from Other Targeted Populations. Finally, FA is specifically needed for direct awardees to redeploy funds to indirect awardees led by Black and Hispanic organizations that serve historically marginalized, LIDCs, in alignment with the Justice40 Initiative.

These efforts, taken together, will facilitate the development of a model that provides capacity-building and back-office support for community financial institutions, especially those that are rural-based, smaller asset-sized, and/or minority-led, as they seek partnerships with other organizations to build out a sustainable green finance infrastructure. That said, Coalition members are fully capable of deploying GHGRF without dependency on third-party organizations, such as green banks. More importantly, these efforts ensure LIDCs are afforded an opportunity to enjoy the benefits of green energy investment.

Program Design

The Coalition believes that additionality is central to the effective deployment of GHGRF and urges EPA to consider the extent to which a GHGRF applicant's proposal will provide capital for revolving green projects that would otherwise not be undertaken. The Coalition recommends that EPA provide funding to grantees to, first, establish revolving patient capital loan funds specializing in green financing products at terms that match or better other federal programs (e.g., Emergency Capital Investment Program, USDA Revolving Fund Program) and second, make equity investments into community financial institutions with smaller asset sizes. Further, EPA should provide FA and TA for awardees to facilitate the purchase and transfer of loans from other awardees and large indirect awardees to community financial institutions of smaller asset size. This will help the build the balance sheets of these community financial institutions, increasing their ability to effectively serve low-income and disadvantaged populations. Furthermore, EPA should take care to avoid overly burdensome compliance criteria, as this will have outsized adverse impact on smaller community financial institution relative to their larger counterparts.

EPA should also allow grantees to invest grants into capital markets that share objectives with the GHGRF until those grants are ready to be deployed. This is consistent with EPA mandate of "continued operability" and gives CDFI recipients the runway necessary to build loan origination capacity. In addition to ensuring continued operability, this design feature allows for investment in green projects in LIDCs that would otherwise lack access to financing (e.g., investments in planting trees and other beautification projects that can help regulate temperatures in LIDCs, partnerships with local trade schools to assist with building projects, etc.).

Furthermore, EPA should design the GHGRF such that it encourages direct and indirect awardees to fund projects that create high-quality jobs and adhere to best practices for labor standards. However, this requirement should be balanced against the difficulty many small business owners have in creating high-quality jobs, particularly those located in LIDCs. To avoid excluding these businesses that serve such an important role in their communities, EPA should limit any requirement for high-quality jobs to construction or housing projects.

Finally, in developing program guidance and policies to ensure that GHG and air pollution reduction projects funded by grantees and subrecipients comply with the requirements of Title VI of the Civil Rights Act, EPA should adopt the CDFI Fund's definitions of an eligible "Target Market." The Coalition believes that this definition ensures an equitable distribution of resources to direct awardees, indirect awardees, and borrowers located in those communities. Additionally, the Coalition urges EPA to require location/zip code project data, demographic tracking and reporting by the EPA of GHGRF direct awardees, indirect awardees, and end-beneficiaries to reduce the likelihood of disparate impacts to individuals based on their race, color or national origin. Finally, we believe GHGRF needs to center on communities most negatively affected by climate change. As such, we recommend GHGRF have an environment justice and equity lens, giving strongest consideration for communities and coalitions that serve people hardest hit by climate injustice.

Eligible Projects

Every community has been uniquely impacted by the climate crisis and will require interventions tailored to the particular set of climate challenges its members face, and grantees must be flexible and sensitive to the needs of those communities. Given the broad array of potential participants and activities that may be funded, the GHGRF must be flexible and allow variety of financing instruments, transaction sizes, and delivery strategies to channel capital, training, and support on-the-ground. In the case of financial support, GHGRF monies channeled through Eligible Recipients of Direct and Indirect Investments should include, but not be limited to, a broad menu of options such as: equity capital and equity equivalent financing to support community financial institutions; direct project loans; loan participations; loan guarantees; interest rate buydowns; secondary market grants or guarantees; equity investments in quailed projects; and ecosystem capacity building grants. Generally, GHGRF eligible activities should focus on efforts to increase investment in community engagement and education, workforce development (e.g., recruitment, training, job placement, etc.), small business development, and partnerships with venture companies that can provide blended equity and debt to awardees allowing them to acquire the technological infrastructure and intellectual property necessary to grow and reach target markets. Finally, the Coalition strongly urges EPA not to require a match to access GHGRF funding, as this would unnecessarily make it more difficult for LIDCs to reap the benefits of the GHGRF.

Specific GHGRF-eligible projects should include those that reduce energy cost burdens for renters (e.g., Community Solar Gardens, upgrading to high-efficiency appliances); support consumer products and services, especially in rural areas (e.g., adequate charging stations for electric vehicles, electric upgrades for aged residential properties, etc.); provide mortgage assistance to homebuyers of green homes; provide funds for upfits and remodels on existing homes and historic buildings owned by individuals in LIDCs; conduct energy audits to understand community needs and gaps; provide workforce training conducted by CDFIs and non-profits; provide capacity building grants for organizations to hire staff to assist with GHGRF compliance, including certified LEAD-trained auditors. Further, eligible activities should encompass low-interest loans to small businesses engaged in green initiatives, with a focus on grants for affordable housing developers and minority-owned commercial developers as well as funding to assist the transition to electric fleets for transportation businesses. Finally, EPA should heavily rely on the White House Environmental Justice Advisory Council's recommendations for projects that will have the greatest impact on environmental outcomes in LIDCs.

Finally, the Coalition strongly recommends that recipients be allowed to determine eligible projects based on community need, leveraged funding sources, and impact priorities. EPA should also prioritize projects with the greatest economic, social and health benefits to vulnerable populations in LIDCs. To that end, EPA should impose more onerous conditions to GHGRF funding for larger companies and conglomerates. For instance, landlords that own 20 or more homes should be eligible for reduced levels of GHGRF funding, but only to the extent they do not increase rents beyond the terms of the initial contract or beyond that of similarly sized properties located in their geographic region. The Coalition believes this is necessary to ensure that the economic, social and health benefits of the GHGRF persist over the long-term.

Eligible Recipients

Though many types of entities should be considered for GHGRF funding, the Coalition recommends that community financial institutions with established infrastructure and capacity, particularly those that are minority-led or minority-serving, receive priority consideration as recipients of GHGRF grant capital. These institutions have a demonstrated track record of providing affordable and prudent financial services to support community development, affordable housing, and small business lending in communities that have historically been shut out of the traditional financial system – the very population that the GHGRF intends to reach. Further, those community financial institutions that are certified by the CDFI Fund are required to target at least 60 percent of their financing activities to low- and moderate-income populations or underserved for purposes of satisfying CDFI Fund Certification standards, further evidence of their accountability to historically underserved markets. Similarly, MDIs are predominately owned or led by people of color and predominately sit in and serve communities of color with historically more than 60 percent of their lending in those communities. The Coalition is concerned that GHGRF funds will not reach minority, low-income, and underserved communities unless the EPA directs funds to community financial institutions that specialize in serving these communities.

Community financial institutions are uniquely positioned to deliver green energy projects to LIDCs. These entities possess vast experience and expertise in loan and grant management, workforce training, and the provision of TA at the ground level. They also have established local, public, and private relationships that can be used to leverage and support community-based efforts to inform and train members of LIDCs. Most importantly, the challenges faced by borrowers and/or end-beneficiaries of GHGRF –access to capital, collateral challenges, cash flow concerns, limited understand of beneficial federal programs – are precisely the challenges that community financial institutions have proven adept at addressing for decades. Never was community financial institutions' ability to rapidly deploy federal funds to economically distressed markets more evident than during the COVID-19 pandemic and the implementation of the Paycheck Protection Program (PPP). With PPP, the federal government relied heavily on mission lenders to ensure critical funding reached the most vulnerable small businesses in the economy. For their part, mission lenders made at least $34 billion in PPP loans to economically distressed small businesses. PPP proved that community financial institutions are indispensable in maximizing the impact of federal programs for low-income and disadvantaged populations often excluded from traditional financial services.

Eligible Recipients should also include intermediaries serving the CDFI and MDI sectors. In this case, financial intermediaries are trade associations, funds, or other entities who facilitate the flow of capital to local communities through projects, activities, nonprofits, for-profits, technologies, and other activities. Such intermediaries will manage the GHGRF awards and coordinate compliance and reporting among participating organizations. They, in turn, will be able to distribute GHGRF funds directly to community financial institutions directly as Qualified Projects or as Indirect Investments to other intermediaries with specialized experience working with specific types of CDFI, MDI or environmental community financial institutions. Intermediaries could also direct financing and technical assistance to areas, communities, and activities that fall outside traditional financial solutions; build the capacity of direct lenders; and design and support community-led solutions.

As discussed, community financial institutions, including depositories, should be able to participate in GHGRF as Recipients of Indirect Investments and/or as Qualified Projects. Section 60103 defines "Eligible Recipient" as a nonprofit profit organization that ''does not take deposits other than deposits from repayments and other revenue received from financial assistance provided using grant funds under this section." However, the statute goes on to describe an Indirect Investment by saying that:

> "The eligible recipient shall provide funding and technical assistance to establish new or support existing public, quasi-public, not-for-profit, or nonprofit entities that provide financial assistance to qualified projects at the State, local, territorial, or Tribal level or in the District of Columbia, **including community- and low-income-focused lenders and capital providers.**" [emphasis added]

The specific addition of community- and low-income-focused lenders and capital providers makes it clear that lenders meeting these criteria could be recipients of Indirect Investment notwithstanding the prior limitation. Had Congress intended to exclude this group from either definition, it could have – but it chose not to. Congress did not exclude depository institutions as Indirect Recipients and/or Qualified Projects. Furthermore, Congress clearly established in its definition of Qualified Project that it intended a very expansive and inclusive set of activities to be considered appropriate stating:

> ''(3) QUALIFIED PROJECT.—The term 'qualified project' includes **any project, activity, or technology** that— ''(A) reduces or avoids greenhouse gas emissions and other forms of air pollution in partnership with, and by leveraging investment from, the private sector; or (B) assists communities in the efforts of those communities to reduce or avoid greenhouse gas emissions and other forms of air pollution." [emphasis added]

The common use of the word “any” is instructive in this context. Provided the funding for the Qualified Project passes through an intermediary that is an Eligible Recipient, and the activity meets the conditions of (3)(A) or (B), it is eligible. Thus, a depository CDFI, MDI or credit union may receive GHGRF monies through an Eligible Recipient provided they engage in activities outlined in (3)(A) or (B). Thus, a plain reading of Section 60103 concludes that mission focused depositories are eligible for GHGRF as Indirect Investments and/or as a Qualified Project.

Finally, as stated earlier, the Coalition strongly urges EPA to fund multiple GHGRF recipients, as opposed to a single entity. Communities require tailored solutions to address their specific climate-induced challenges. It is far more efficient for multiple entities, each with an established and trusted presence in the LIDCs they serve, to develop projects that meet the specific needs of the community.

Oversight and Reporting

Though EPA has 180 days to begin distributing GHGRF funding, it has until September 2024 to obligate it all. Over the short term, the Coalition recommends that EPA distribute grants to a small group of community financial institutions, either individually or as part of a consortium, that have a demonstrated track record of serving LIDCs and consistently meeting performance-based metrics.

Proper oversight and reporting are critical to a successful GHGRF implementation. However, given the potential that awardees may already be regulated by a government agency or entity, EPA should not adopt reporting standards that increase the regulatory burden of such awardees. Instead, EPA should adopt reporting standards that are consistent with that of other government agencies or entities (e.g., CDFI Transaction Level Reports). However, if it is not possible for EPA to utilize existing reporting systems, then GHGRF awardees should receive grants to operationalize GHGRF-specific reporting requirements. EPA should also consider developing a reporting template that is intuitive and can be periodically updated by direct and indirect awardees to demonstrate progress towards GHGRF goals. Finally, in an effort to increase standardization across the program, the Coalition recommends that EPA develop simple reference charts and formulas to guide eligible project determination and performance.

Successful GHGRF implementation will also require EPA to develop clear and relevant criteria and appropriate indicators regarding the level to which GHG emissions should be reduced, the time frame to reach that emissions goal(s), and the mechanisms awardees must utilize to reach that goal(s). Those metrics must capture the social, economic, and health benefits to LIDCs as described in the GHGRF. Specifically, performance metrics should, first, consider the relative success of a recipient in lowering energy costs in LIDCs through conservation and energy improvement projects (e.g., number of loans closed, number of new end beneficiaries with access to energy efficient products, etc.) Second, the EPA should measure the extent to which products build wealth for low-income households and small businesses (e.g., number of small businesses financed in LIDCs, number of new green businesses created in LIDCs, number of green jobs created by small businesses in LIDCs, etc.). Finally, and most importantly, EPA should analyze how well a qualified funded project decreases GHG emissions in LIDCs. For this metric, we will rely on the expertise of the EPA in identifying appropriate levels of GHG emissions for approved qualified projects.

On behalf of the Community Builders of Color Coalition, we thank you for the opportunity to provide recommendations on the implementation of the GHGRF and welcome continued discussions with EPA. Please do not hesitate to contact us for clarifying questions or comments.

Sincerely,

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