POLITICOPRO

Community development groups jockey with green banks to lead $27 billion fund

BY ZACK COLMAN | 02/13/2023 07:45 PM EST

For the development banks that seek to direct money to low-income areas and communities of color that are often overlooked, the program – whose spending is about triple the EPA annual budget – represents a chance for President Joe Biden to live up to his promises to minority communities. | AP

A new $27 billion program that will kick off as early as this week has community development organizations and a group of green banks jostling over who should control the bulk of the funding to roll out clean energy projects in hard-hit communities.

EPA is expected to lay out this week how it plans to structure the program, called the Greenhouse Gas Reduction Fund, that was created under the Inflation Reduction Act, capping off a decade-long quest by advocates to create a national "green bank" to drive investments with an environmental focus.

For the development banks that seek to direct money to low-income areas and communities of color that are often overlooked, the program – whose spending is about triple the EPA annual budget – represents a chance for President Joe Biden to live up to his promises to minority communities.

"What's at stake is right and wrong," said Lenwood V. Long Sr., CEO of the African American Alliance of Community Development Financial Institution CEOs, which represents Treasury Department-certified community development banks. "The soul of America – cities and towns and communities are at stake. Equity is at stake."

The places that often struggle to attract private finance for climate investments see the program as a lifeline. It will send $7 billion to local, state and tribal governments or non-profits while EPA will award the remaining $20 billion. Congress tagged $15 billion of the total spending for low-income and disadvantaged communities. And the agency must award all that money by Sept. 30, 2024.

Community development organizations say they would be the program's best stewards. Congress created a fund to support the community development financial institutions out of recognition that low-income, predominantly communities of color, were shut out of traditional lending, and the same factors that kept commercial banks at bay have left those same communities falling behind on investments to tackle climate change.

Reed Hundt, CEO of the non-profit Coalition for Green Capital, a network of green banks, argues that community development financial institutions were designed for traditional economic development, like improving mortgage access and affordable housing construction in low-income communities rather than the environmentally focused projects that the fund will create

Hundt said his group wants the money to go through a national green bank, which could better leverage the public funds for private capital while also setting clear standards and sharing technical expertise with community financial institutions and credit unions. The group contends a $20 billion investment would leverage $205 billion between 2023 and 2035, but that diffusing the money across multiple banks would add administrative costs.

“There’s never been a shadow of a doubt,” Hundt said. “The vision for the sponsors has uniformly been, ‘We want a national green bank.’”

Hundt said his group has sought closer collaboration with community development financial institutions and credit unions that have sight lines into the communities they serve. That way, the national bank can focus on generating more investment and providing expertise on structuring and evaluating green finance deals while local partners can field the potential projects.

The coalition on Friday announced new partnerships with clean energy investors and lenders in Hawaii, Texas, Louisiana and elsewhere that it said would help a “national green bank reach underserved communities” and deliver a pipeline of projects valued at $6 billion. On Monday, it unveiled partnerships with entities in Florida, Ohio, Rhode Island and Maryland.

But for Long, of the African American Alliance of CDFI CEOs, and his supporters, that effort smacks of paternalism.

“If the EPA would make a decision to give those funds to just one entity it would be a dark day in this country,” said Long. “I am surprised that [green banks] are almost going to the point of blasphemy.”

The law is silent on the fund’s governance structure and accountability, leaving open for interpretation how best to dole out the funds, said Adam Kent, senior adviser at the Natural Resources Defense Council’s Green Finance Center. His group believes the money should be spread across multiple entities to ensure diverse funding.

Environmental justice advocates and clean energy developers see the program as a catalyst for helping Biden fulfill his pledge to send 40 percent of benefits from clean energy investment to communities that have long suffered from disproportionate levels of pollution.

“That's why this Greenhouse Gas Reduction Fund is so transformational, because it's saying here's resources at scale to do both equity and greenhouse gas reduction. And that’s just never happened before,” said Dawn Lippert, CEO of Elemental Excelerator, a non-profit investor in clean energy startups.

The fund was a topic that came up at a January town hall with environmental justice and green movement activists convened by Vice President Kamala Harris and attended by Inflation Reduction Act implementation chief John Podesta, infrastructure lead Mitch Landrieu, National Climate Adviser Ali Zaidi and White House Council on Environmental Quality Chair Brenda Mallory, according to a person who attended the meeting, who asked for anonymity because they were not authorized to share details.

EPA’s Jahi Wise has led the agency’s team pulling the program together, wading through hundreds of comments and holding hours of listening sessions. Wise is a veteran of the White House Climate Policy Office, and he previously worked for Hundt's Coalition for Green Capital.

Developers contend both sides of the argument have their merits and shortcomings.

Donnel Baird, CEO of BlocPower, a Brooklyn-based company that electrifies buildings, said he has talked to thousands of investors and hundreds of community development financial institutions. But he’s never secured a loan from a community development financial institution, even when trying to finance projects to green buildings in low-income communities.

“If you ask them, they will tell you they don’t know how to do it,” Baird said, and few have the mechanical engineers and other experts on staff to assess projects for financing.

“On the other hand, the green banks are not as good as they need to be at providing loans to low-income people,” Baird added.

Yet green banks believe they can develop the relationships to find climate-worthy projects in low-income communities.

The Connecticut Green Bank boosted residential solar installations in low- and moderate-income households through a program that provided capital to a private solar company. The green bank agreed to take the first loss ahead of any private investors if the company leased panels to homeowners without requiring an up-front payment or credit score, and that private firm also banked federal tax incentives.

“We can engage in a conversation with these communities to better understand those needs,” said Bryan Garcia, the bank’s CEO. “This is really a once-in-a-generation opportunity in the Greenhouse Gas Reduction Fund to address environmental injustice while at the same time confronting climate.”

Politico Transaction: correlation=96cbb108-b5a5-49b7-8fc2-f7f38c2122e5, doc=00000186-4c4c-de35-afde-6deec4200001, send=4cd0e939-fd78-4fec-ade1-2d24a00f3794, user=00000166-5e05-db77-a36e-7e074b120000