October 19, 2022

The Honorable Michael Regan
Administrator
U.S. Environmental Protection Agency
1200 Pennsylvania Avenue, N.W.
Mail Code 1101 A
Washington, DC 20460

Re: Greenhouse Gas Reduction Fund—Equity Outcomes; Energy Efficiency

Dear Administrator Regan:

The Alliance to Save Energy (Alliance), a bipartisan nonprofit coalition of business, government, environmental, and consumer leaders— and a leading voice in informing federal and state energy efficiency policies and standards, joins with the African American Alliance of CDFI CEOs (AAA), and National Association for Latino Community Asset Builders (NALCAB), in support of the Greenhouse Gas Reduction Fund (GHG Fund or Fund) section 60103 of the Inflation Reduction Act. Prior to passage of the of the Fund, the Alliance advocated for its inclusion in budget reconciliation and worked closely with Senate, House, and Administration leadership to ensure that at least 40% of program dollars go to low-income and disadvantaged communities to further a just energy transition. AAA and NALCAB are the leading voices and practitioners dedicated to community-based financial and technical assistance in African American and Latino communities, and together represent over $30 billion in assets with an established history of economic development in low-income and disadvantaged areas. The Alliance, AAA, and NALCAB look forward to working with the Environmental Protection Agency (EPA) as it now seeks to implement the new Fund.

The EPA is the Federal agency tasked with ensuring that our nation's environment is clean and safe, and the Agency has been a leader in the community and industry in establishing and enforcing the standards necessary to lower GHG emissions and harmful pollutants from the air. Moreover, the EPA is helping to lead the way to ensure a just energy transition as the nation responds to the urgent issues of climate change. As such, the EPA is well positioned to lead the GHG Fund to achieve the anticipated program outcomes, primarily capital investments that lower or eliminate GHG emissions in low-income, disadvantaged, and tribal communities. According to the statute, $7 billion is appropriated for the deployment of zero emission technologies in low-income and disadvantaged communities; nearly $12 billion is appropriated for qualified projects that lower or eliminate GHG emissions—with prioritization for projects that otherwise lack access to private capital; and $8 billion is available for qualified projects that lower or eliminate GHG emissions in low-income and disadvantaged communities.

The Alliance, AAA, and NALCAB jointly provide preliminary comments, anticipating the opportunity to provide more detailed recommendations later through a Request for Information, draft Notice of Funding Availability, or though other formal/informal EPA processes. That said, as the EPA begins to develop the Fund's operational structure, we urge the Agency to lead with equity and energy efficiency as main drivers to facilitate the Fund's mandate of a just energy transition and maximized green energy investments and outcomes.

I. The EPA Should Lead with Equity in all Aspects of the Fund's Operation

In developing the structure and operation of the GHG Fund, the EPA should apply principles of equity and a just energy transition throughout all aspects of the program, including how grants are awarded to applicants. We are aware that some are proposing that all or a substantial portion of the program funds go to a single entity or group of entities as a master-structure. The single entity or group would then be responsible for distributing or awarding funds to other organizations. We would oppose the master-entity structure due to its likely negative impact on equity objectives and outcomes.

It is not enough that a program aims to place capital inside low-income and disadvantaged communities if the intent is to grow economic and climate investments in these targeted areas. The program must also focus on the organizations that receive funds for investment and identify whether those organizations are sufficiently tied to the targeted communities they propose to serve. Doing so will maximize program success today while also preparing and developing capital structures within those communities well into the future. Furthermore, this approach helps to avoid some of the unintended consequences experienced in similar programs that target economic development in low-income and disadvantaged communities, such as the New Markets Tax Credit (NMTC) Program, for example.

The NMTC program is led by the Community Development Financial Institution (CDFI) agency in Treasury and provides valued allocations on a competitive basis to applicants, also known as Community Development Entities (CDEs) for the purpose of incentivizing economic development in low-income and disadvantaged, communities -- including those in urban, rural, and tribal areas. According to the Hope Policy Institute (HPI), African American and minority-led CDEs often receive smaller allocations when compared to white-led organizations – and areas that are majority minority experience lower levels of deployed investments. When analyzing the dollar amount of allocations received by minority-led CDEs, covering a period from 2012-2019, allocation amounts ranged from a low of 5 percent of total allocations in 2014, to a peak allocation of 16 percent in 2017. In real terms, when isolating for the 2017 high point, minority-led CDEs received $576 million in allocations as compared to $3 billion received by White-led

CDEs. Moreover, from 2003 to 2017, only 35 percent of all NMTC investments were deployed in counties where the population is majority people of color.[1]

In a subsequent 2020 report, HPI analysis also revealed significant gaps in asset size when comparing White and non-White-led organization awardees, with the former having a median asset size at least two-times that of minority-led awardees.[2] As indicated above, this gap persists when analyzing award amounts, which according to the 2020 report are three times larger for White-led groups.[3] Additionally, according to practitioners, the disparities in asset and award size carryover and impact the ability of minority organizations to attract philanthropic and bank funding as well.

The exclusion of minority-led CDEs and lower investments in majority-minority communities in the NMTC program is not believed to be intentional but is a direct result of program design and application scoring structures, which have historically and correctly sought to identify those CDEs with the experience, capitalization, and capacity to successfully deploy NMTC allocations. However, because allocations are determined by a scoring process that will predominantly favor the larger more tenured applicant, the smaller, less tenured applicant is likely to score lower, and not receive an award. That the smaller, less tenured applicant did not receive an allocation is not a verdict that the applicant lacked the necessary experience, capitalization, or capacity to successfully deploy an allocation, but that the winning allocatee possessed greater experience, capitalization, and capacity, and therefore scored higher. This competitive disadvantage for minority-led CDEs is further exacerbated as more tenured CDEs establish a history of receiving and successfully deploying NMTC allocations, which is then used as experience in the next competitive round. In theory, all other factors being equal, an applicant with eight years of experience will score higher than one with five years of experience, and therefore receive the award. Many minority-led and smaller CDEs, while having significant experience and capacity, may have less time in practice and will always lag in time when compared to older applicants, and thus consistently be excluded as an allocatee.

We are concerned that the master-entity design that some are proposing for the GHG Fund could inure results similar to the NMTC program, resulting in minority-led service providers being excluded as master entities *and* as secondary or tertiary awardees, with the additional outcome of reduced investments inside majority-minority communities. As a general rule, emerging and minority-led non-depository community financial service providers are embedded in the low-income communities they serve — and with representative leadership and front-line staff from those communities, are best positioned to understand the needs and priorities on the ground. They understand where and why resource gaps exist and how best to close those gaps, by aligning investment decisions to meet those needs. For example, data show that when lenders, technical assistants, business coaches, housing and credit counselors, loan officers, and community lenders reflect the identities and experiences of their non-White

[1] http://hopepolicy.org/manage/wp-content/uploads/HOPE-Strategic-Use-of-NMTC-Maximizes-Development-Impact-in-Distressed-Communities-of-the-Deep-South-Brief.pdf.
[2] http://hopepolicy.org/manage/wp-content/uploads/CDFI-Fund-Time-Series-Analysis-brief-edited.pdf.
[3] *Id.*

potential clients, that the rate of funding, professional support, loan flexibility, and positive economic outcomes increase dramatically. [4]

We urge the EPA to avoid the master-entity structure and better ensure that GHG Funds provide the necessary and equitable environmental and community outcomes. This includes equitable outcomes for awardees. One possible consideration for additional development could be to award at least 40% of all program funds to qualified applicants that are embedded in, reflective of, and have a genuine history in the low-income or disadvantaged communities that they propose to serve. Such a structure could work well within the statute, and could be achieved through multiple individual qualifying awards, or through the selection of a limited number of lead front-line organizations who would participate as direct awardees.

II. Fund Outcomes Should be Maximized through Required Energy Efficiency Investments

The EPA should prioritize or otherwise lead with energy efficiency as it seeks to achieve substantive GHG reduction outcomes as identified in the GHG Fund statute. According to the International Energy Agency, 40% of the emission reductions required by the Paris Agreement can be achieved through energy efficiency alone.[5] The same agency has also concluded that to reach net zero by 2050 will require substantive investments in energy efficiency.[6] Furthermore, according to the EPA, energy efficiency is the least costly and most effective pathway to emission reductions and net zero.[7]

When possible, the EPA should tie program investments to energy efficiency and energy savings outcomes, and priority should be given to applicants who agree to link energy efficiency to relevant project types. Although the GHG Fund statute contemplates stand-alone energy efficiency investments, even greater GHG reductions can be achieved when energy efficiency is coupled with investments such as community or rooftop solar, renewable microgrids, and other projects. In these instances, energy efficiency can lower needed capacity levels and overall project cost, which can have a direct impact on consumer energy costs and would help to keep energy affordable.

As another example, prioritization could be given to applicants proposing to provide low-interest loans to assist affordable housing developers build energy star or zero-energy homes—as a strategy to ensure that climate focused housing is accessible in low-income and disadvantaged communities. Program investments of this type would result in fewer carbon emissions, less demand on the grid, and energy cost savings for homeowners and renters.

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[4] Lyons-Padilla Sarah, Markus Hazel Rose, Monk Ashby, Radhakrishna, Shah Radhika, Dodson IV Norris A., Eberhardt Jennifer, Race Influences Professional Investors' Financial Judgments (2019).

[5] https://www.iea.org/commentaries/how-energy-efficiency-will-power-net-zero-climate-goals.

[6] https://www.iea.org/articles/net-zero-by-2050-hinges-on-a-global-push-to-increase-energy-efficiency.

[7] https://www.epa.gov/statelocalenergy/local-energy-efficiency-benefits-and-opportunities.

As a final example in this initial comment, the EPA could also consider prioritizing awards that encompass grid-integrated efficient building technologies, or projects that are additive to or seek to replicate DOE's Connected Communities model. Connected Communities are, "a group of grid-interactive efficient buildings (GEBs) with diverse, flexible end use equipment and other distributed energy resources (DERs) that collectively work to maximize building, community, and grid efficiency while meeting occupants' comfort and need." [8] Development of these technologies in low-income and disadvantaged communities will be critical to ensuring they are not left behind in the energy transition.

III. EPA should Encourage Fund Applicants to Leverage Other Public and Private Resources

Applicants should be encouraged to leverage other resources when providing financial services and technical assistance pursuant to the statute. The Inflation Reduction Act includes a number of other provisions that when leveraged with GHG Fund investments can maximize emissions reductions and consumer energy savings and costs. Moreover, by leveraging other program funding, awardees have more capital to further the purpose of the GHG Fund. Relevant public resource leveraging could include utilization of various energy efficiency tax incentives, such as 25C, 45L, and 179D; use of one of the home efficiency rebate programs, which in total received $9 billion in funding appropriations, including support for contractor training and education; partnerships with entities participating in the DOE Loan Program; or other areas.

That said, the EPA should also encourage leveraging of private investments in relevant communities to help achieve identified GHG Fund objectives. Private leveraging could occur in multiple ways, but applicants could be incentivized to partner with or fund existing projects that originally do not contemplate GHG reduction and energy savings outcomes, and then use program funds as a low-cost loan additive. Applicants could also identify private equity or other partnership opportunities as well. Importantly however, replacing market rate capital with GHG Fund resources should be avoided, ensuring that investment capital primarily goes where private capital cannot or will not.

Conclusion

In conclusion, the Alliance to Save Energy, African American Alliance of CDFI CEOs, and the National Association for Latino Community Asset Builders, urge the EPA to lead with equity in all aspects of the GHG Fund's operation, and that at least 40% of awarded capital go to non - depository community lenders who are representative of and embedded in the communities they serve. We also urge that the EPA lead with energy efficiency as a strategy to maximize GHG reductions in low-income and disadvantaged communities while also helping to reduce energy burden. Finally, we encourage the EPA to incentivize leverage of public and private resources.

[8] https://connectedcommunities.lbl.gov.

We thank you for the opportunity to provide comment at this early stage of the Fund's development and we look forward to working with you more closely to ensure a just energy transition for disadvantaged and low-income communities.

Sincerely,

Alliance to Save Energy
African American Alliance of CDFI CEOs
National Association for Latino Community Asset Builders

Cc: U.S. Senate Committee on Environment and Public Works
U.S. House Committee on Energy and Commerce
Congressional Black Caucus
Congressional Hispanic Caucus