December, 5 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 RFI Response- Docket No. EPA HQ-OA-2022-0859

Dear Administrator Regan:

The Alliance to Save Energy (Alliance) thanks the Environmental Protection Agency (EPA) for the opportunity to respond to the Request for Information (RFI) on the Greenhouse Gas Reduction Fund (GHG Reduction Fund or Fund). The Alliance is a bipartisan, nonprofit coalition of business, government, environmental, and consumer leaders advocating to advance energy efficiency adoption and is a leading voice informing federal and state energy efficiency policies and standards.

Prior to the release of the RFI, the Alliance, joined by the African American Alliance of CDFI CEOs (AAA) and the National Association of Latino Community Asset Builders (NALCAB) submitted comment, urging the EPA to focus on three areas: (1) Equity in direct awards; (2) Prioritization of energy efficiency; and (3) Guidance and prioritization to ensure leverage of private and other resources. AAA and NALCAB are leading community development financial institution (CDFI) organizations whose members are CDFIs serving African American and Latino individuals and families in low-income and disadvantaged communities. AAA and NALCAB are filing separate comment, where they are joined by a diverse group CDFIs and others.[1]

The Alliance comments as follows:

[1]Including but not limited to the Native CDFI Network; OWESTSA (a Native CDFI intermediary); National CAPACD; Prosperity Now (formerly known as the Corporation for Enterprise Development); the Chisholm Legacy Project; Inclusiv (a credit union based CDFI intermediary serving low-income and disadvantaged communities); and the National Bankers Association (the banking trade association serving African American, Latino, Native American, and Asian-owned banks.

Summary

(1) **Energy Efficiency as a Priority:** EPA should seek to link most if not all projects to energy efficiency installations and outcomes, including sealing the building envelope and active efficiency technologies. Leading with energy efficiency would optimize the value of other energy investments in low income and disadvantaged communities, reduce GHG emissions, and lower energy cost and energy burden in areas and homes where it is needed most.

(2) **Equity for Direct Awardees and Program Outcomes:** The GHGR Fund effectively creates the opportunity for climate responsive development in low-income and disadvantaged communities, including targeting the application of rooftop solar projects. However, the Fund should also seek to achieve equity in distribution of direct awards, targeting the frontline financial service providers with significant ties to the communities they serve. The Alliance proposes that EPA apply justice 40 principles and ensure that 40% of program capital go to such organizations as direct awards, for the reasons described in greater detail below.

The EPA should also incentivize equity outcomes related to employment and other objectives, as tied to projects and development in low-income and disadvantaged communities. This includes project incentives tied to workforce training, job placement, and business development opportunities.

(3) **Leveraging of Private, Public, and other Resources:** EPA should prioritize leveraging of resources to maximize and increase Fund outcomes. This includes private capital, public funds, utility programs, tax policy, and other leveraging streams.

Section 1: Low-Income and Disadvantaged Communities

- The EPA has significant experience in developing and implementing programing in low-income and disadvantaged communities, including identification of energy efficiency investments. Additionally, we anticipate that a number of stakeholders with significant experience in serving the relevant communities will provide additional guidance, including but not limited to those organizations identified in footnote 1.

- That said, the Alliance recommends that EPA also use energy burden as a metric when identifying or defining low-income and disadvantaged. We further recommend that EPA use high energy burden as a qualifying metric to allow service providers to provide financial and other technical assistance pursuant to the statute even when the end-user is outside of a defined low-income or disadvantaged area. Finally, the Alliance proposes that EPA publish its adopted definition(s).

- The Alliance further proposes that in the development of program policies designed to serve low-income and disadvantaged communities that EPA consider the availability of

resources needed within non-profits to effectively implement eligible projects. Serving the targeted communities will require added support, promotion, and advisement to assist project recipients with navigating the process and decisions needed for effective implementation at the project level. As discussed below, service providers will need to stack, develop, and combine multiple resources to achieve additionality when serving the targeted population, including the identification of resources that may be available through municipal, state, and private entities. The EPA should allow a percentage of received funds to cover these costs within organizations, and further consider providing funds for technical assistance and capacity building in this area as well to cover costs to educate and train grantee staff, and to cover administrative costs.

Section 2: Program Design

- The level of investment made by the GHG Reduction Fund in low-income and disadvantaged communities is significant, but the appropriation is not limitless. To ensure that Fund resources are maximized, direct and indirect awardees should be incentivized to leverage, stack, grow, and recycle received capital. The Infrastructure Investment Jobs Act (IIJA) and the Inflation Reduction Act (IRA) provide multiple resources that can be used in tandem with GHG Reduction Fund capital. For example, a project designed to retrofit a public school in a low-income or disadvantaged community should also look to Section 40541 of the IIJA, which provides $500 million for grants for energy improvements in public school facilities. Another example could be the inclusion of energy service companies on larger or combined projects within targeted communities, which can help offset project cost through energy savings arrangements. As another example, projects providing residential or commercial energy efficiency improvements should be combined with existing state, local, and utility programs that target energy efficiency, to help cover the cost of identified energy efficiency improvements. Relevant resources in this area include but are not limited to existing energy efficiency revolving loan programs led through various state energy offices; use of funds provided by the Energy Efficiency and Conservation Block Grant Program; the energy efficiency rebate programs authorized in the IRA; use of recently expanded energy efficiency tax incentives 25C, 45L, and 179D; and other opportunities.

- To help ensure that GHG Reduction Funds are recycled, EPA should allow direct and indirect awardees to participate in and develop a secondary market when debt financing is used. Loans could be sold to indirect awardees and others who have an interest in participating in the secondary market. This could also be an effective strategy to include minority depository institutions (MDIs) serving low-income and disadvantaged communities, including the nation's low-income community development credit unions.

Section 3: Eligible Projects

- To the greatest extent possible, the EPA should lead with energy efficiency, both as a strategy to reduce carbon emissions, and as a strategy to optimize use of the GHG Reduction Fund. According to the International Energy Agency (IEA) energy efficiency alone has the ability to achieve 40% of the emission reductions required under the Paris Agreement.[2] Additionally, efficiency has the economic ability to reduce the energy burden on disadvantaged and low-income populations.

- That said, the EPA should prioritize projects that have direct energy efficiency linkages, when implementation of energy efficiency strategies would otherwise reduce overall project cost. For example, energy efficiency connected to a community solar generation project would directly impact the project size and capacity, by lowering relevant energy demand. This would also apply to individual rooftop solar projects as well, particularly when combined with targeted storage solutions. Providing rooftop solar with energy efficiency would also reduce demand on the grid and other energy systems when solar is not available.

- As the EPA considers the types of energy efficiency investments in terms of equipment or technology types, the EPA should rely on most efficient standards under Energy Star, the Consortium for Energy Efficiency, or ASHRAE. Relevant products would include heat pumps, lighting, appliances, and others. Additionally, we would recommend a fuel-neutral approach related to equipment types, allowing community developers and residents to identify solutions that achieve the highest GHG reductions while also ensuring energy savings, and energy burden reductions, including but not limited to renewable natural gas (RNG) development in qualifying agricultural communities.

- With that in mind, the EPA should lead with building envelope improvements, including insulation, windows, and doors. To leverage what the administration has already commenced with the Defense Production Act, including congressional action in the IRA that provides $500 million to facilitate the administration's DPA objectives, the Alliance recommends that EPA incentivize insulation and building retrofit solutions. According to the administration, "50% of U.S. homes currently have outdated and inadequate insulation—[and] retrofitting older homers in cold climates can reduce building energy use by more than 50%."[3]

- Importantly, the GHG Reduction Fund presents an enormous opportunity to address emission reductions and energy efficiency improvements in low income and disadvantaged communities and where access to private capital is challenging. Whereas new policies under the Inflation Reduction Act and Infrastructure Investment and Jobs Act offer attractive incentives or funding for other types of projects, such as long-term extensions and

[2] https://www.iea.org/commentaries/how-energy-efficiency-will-power-net-zero-climate-goals.
[3] Request for Information (RFI) on Defense Production Act.

expansions of renewable energy tax credits, EV charging infrastructure funding and incentives, and tax incentives and rebates for new home construction, etc., the programs for retrofitting existing buildings – residential, commercial, institutional and public – are relatively modest compared to the need. Additional mechanisms are necessary to reach more building owners and operators, particularly in low-income and disadvantaged communities.

In designing the program, EPA should not only prioritize existing buildings in low-income and disadvantaged communities, but also encourage or require deep retrofits that achieve significant savings. This could be accomplished, for example, by requiring larger projects (e.g., all projects other than single family homes or small businesses) to have a minimum estimated energy performance improvement (e.g., 20% expected improvement over baseline) to be eligible, or by tying interest rates to estimated savings such that the most impactful projects receive the best financing terms, up to and including outright grants or zero-interest loans for the most ambitious projects or those serving disadvantaged communities.

One significant challenge in designing such a program is in estimating and measuring energy savings. We recommend that EPA streamline this process as much as possible to avoid administrative burdens that prevent uptake, while also adhering to industry-accepted procedures that help reduce risk of projects failing to deliver estimated performance gains. For large projects, this can be accomplished by requiring standardized project development and credentialed third-party quality assessment of building energy efficiency projects, paired with subsequent reporting of actual energy savings and GHG emission reductions. The Canada Infrastructure Bank's (CIB) $2 billion Building Retrofits Initiative, for example, not only directly links the interest rate it charges to predicted GHG emission reductions, but it requires that each investment earn Investor Ready Energy Efficiency (IREE) certification. The certification, administered by Green Business Certification Inc., demonstrates that an accredited third-party has verified that a retrofit project has been developed in accordance with industry-accepted performance underwriting standards.

Additionally, we recommend that this type of quality assurance be required only for larger projects such as multifamily housing and large commercial building retrofits. We recommend that EPA maintain a simpler program under which single-family homeowners and small businesses could easily access financing for replacing HVAC equipment or making envelope improvements such as insulation or new windows. Such a program could lean on existing, widely available resources such as ENERGY STAR, the Consortium for Energy Efficiency, and the International Energy Conservation Code in establishing criteria for eligible equipment categories. This program should also prioritize quick, simple access for homeowners and small business owners seeking to replace failing equipment, which is when the vast majority of equipment replacement decisions and investments are made.

Finally, we recommend that EPA design eligibility in a way that recognizes a holistic approach to GHG emissions in buildings. This includes taking into account not just the energy performance of a building but also factors such as water consumption, waste, and the embodied carbon of construction materials – all of which are major components of a building's true GHG footprint. It also includes recognizing new technologies such as grid-interactive efficient buildings that reduce emissions by communicating with the grid to use energy at optimal times.

- As we consider other project type recommendations, the Alliance proposes that EPA allow service providers to use all available strategies within the development industry that are necessary for a project to meet GHG reduction objectives and remain financially viable in the context of low-income and disadvantaged community development. This includes but is not limited to developer grants, low-interest loans, and various mortgage assistance strategies for homebuyers. That said, when GHG Reduction Funds are used for such projects— again, EPA should look to Energy Star New Construction, ASHRAE, and the latest building energy codes.

- However, particularly as it relates to new construction and improvements in the single-family and multi-family environments, we would encourage EPA to identify strategies that prevent the loss of low-income housing stock, and the displacement of residents in low-income communities. Also, to the extent that it is possible, EPA should consider strategies that would ensure that landlords accepting below market-rate funding through the Fund, pass recommended savings to tenants, or at the very least avoid increasing housing costs.

- With the above in mind, significant workforce and small business development opportunities will be created as various projects are supported by the Fund. EPA should incentivize use of workforce training and placement strategies connected to projects using GHG Reduction Funds. Additionally, EPA should incentive the inclusion and development of small businesses who are representative of low-income and disadvantaged communities.

- Workforce and small business development growth as a result of funded projects would help create the type of green economic development envisioned by the administration— wherein IRA funding facilitates a just energy transition that includes the creation of jobs and business development in those communities that need it most.

- Finally, the Alliance would encourage the use of grant funding over debt financing when possible, and when serving low-income customers— or encourage combining grants and loans to avoid over leveraging low-income borrowers.

Section 4: Eligible Recipients

- In developing the structure and operation of the GHG Reduction 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. The Alliance proposes that EPA place 40% of Fund capital with direct awardee organizations that have a substantive history of serving low-income and disadvantaged communities, and are representative of the communities they serve.

- 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 green 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.[4]

- 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.[5] As indicated above, this gap persists when analyzing award amounts, which according to the 2020 report are three times larger for White-led groups.[6] 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.

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

- 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.

- The Alliance supports a strategy that seeks to avoid unintended outcomes that are similar to the NMTC program. As a general rule, frontline service providers are embedded in the low-income communities they serve — and with representative leadership and frontline 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 potential clients, that the rate of funding, professional support, loan flexibility, and positive economic outcomes increase dramatically.[7]

Section 5: Program Oversight and Reporting

- The Alliance defers to the EPA and other commenters, including those representing the work of community financial service providers, to identify existing compliance, oversight, and regulatory structures that would be useful in implementation of the Fund. However, we would encourage that EPA attempt to reduce compliance burdens when possible and use existing systems within other regulatory structures when possible. Finally, we urge EPA to publish all awardee reporting guidance prior to application, to ensure that applicants have notice of what reporting will be necessary. This will also avoid issues experienced under the

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

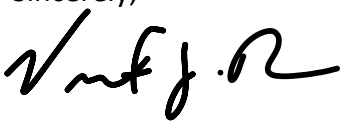
American Recovery Reinvestment Act (ARRA), when awardees were not made aware of reporting requirements until a year after receiving awards.

Conclusion:

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

We thank you for the opportunity to provide comment in response to the RFI and look forward to working with the EPA to ensure the Fund's success.

Sincerely,



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