

Via Electronic Mail

Re: Request for Information – Greenhouse Gas Reduction Fund
Docket ID No. EPA-HQ-OA-2022-0859

December 5, 2022

To whom it may concern,

We are pleased to submit comments in response to the EPA’s request for public feedback on the use of the Greenhouse Gas Reduction Fund (GHGRF). We appreciate the opportunity to provide input on the EPA’s use of funds from this historic opportunity to develop and fund climate change mitigation and adaptation solutions in the United States. While we recognize the significance of all the RFI’s questions, we have chosen to address specific questions based on RMI’s experience and areas of expertise.

[Background on RMI and Our Expertise](#)

RMI is an independent nonprofit founded in 1982 that transforms global energy systems through market-driven solutions to align with a 1.5°C future and secure a clean, prosperous, zero-carbon future for all. We work in the world’s most critical geographies and engage businesses, policymakers, communities, and NGOs to identify and scale energy system interventions that will cut greenhouse gas emissions by at least 50 percent by 2030.

These comments were prepared by a team of experts with relevant expertise across RMI Programs, including teams focused on financial regulation and equitable housing.

RMI’s Center for Climate-Aligned Finance (the Center) helps the financial sector transition the global economy toward a zero- carbon, 1.5°C future. Through deep partnerships in finance, industry, government, and civil society, the Center works to develop decarbonization agreements within high-emitting sectors and support financial institutions in decarbonizing their lending and investing portfolios. By addressing systemic barriers, the Center works to enable more financial institutions to make climate alignment commitments and ensure those commitments can be implemented more effectively.

RMI’s Carbon-Free Buildings team (CFB) is working to end reliance on fossil fuels to power and construct our built environment, bringing buildings to the forefront of a clean energy future. CFB works to prioritize the delivery of holistic, climate-aligned retrofits and new construction to overburdened and underserved families, including low-income and affordable housing, to ensure the health, environmental, and economic benefits of clean energy and climate solutions are equitably deployed.

RMI’s Carbon-Free Electricity Team (CFE) is working to transform electricity systems to support modern low-carbon economies in the United States and global electricity sectors. CFE collaborates with utilities, regulators, and industries throughout the electricity system. With utilities and state regulators, CFE works to improve business models so that incentives are aligned with creating a just, clean energy future. With businesses, CFE develops and shares solutions that bring clean energy technologies to the grid at scale. With influential early adopters, CFE helps to implement new, transformative solutions.

RMI’s US Program (USP) informs policy using non-partisan technoeconomic analysis and insights from across the institute. USP’s federal policy work involves monitoring and participating in key national policy development on energy issues across all sectors of the economy. USP works to guide agency

decisions and legislative action by distilling key findings from RMI's analysis on cost-effective climate solutions.

RMI's Urban Transformation Program (UT) is working to dramatically accelerate local government efforts to simultaneously reduce greenhouse gas, enhance urban livability, increase resilience, and support an equitable energy transition. Our team partners with city and other local government staff and supports them by providing technical assistance, building capacity, enabling learning, and developing tools and resources to meet specific needs.

Summary of Key Messages

The transition to a net-zero economy is irreversibly underway in the US. Yet, the transition is not happening fast enough to guarantee alignment with a 1.5°C future. In some communities and markets, the transition is barely happening at all. At the same time, a rapid transition introduces material risks and costs for households, communities, and businesses. The Greenhouse Gas Reduction Fund (GHGRF) must be leveraged to meaningfully address these risks and facilitate opportunities for households, communities, and businesses in the US transition to an inclusive and prosperous net-zero carbon economy.

Without access to affordable funding to participate in the transition, households, communities, and small businesses risk being left behind -- exacerbating inequality in the US. These stakeholders need access to funding that works for them. Investment in comprehensive building retrofits, electric vehicles, and a transition away from fossil fuel power plants to distributed renewable energy resources can be cost prohibitive for many individuals and smaller enterprises. At the same time, access to affordable private capital remains limited for many financing needs in different regions and different sectors, especially low-income and historically disadvantaged communities, keeping capital costs higher and slowing the rate of change. The GHGRF represents a historic opportunity to transform how the US achieves its economic, technological, and societal goals in an equitable and just way, especially for stakeholders that have historically been left out of the clean energy transition, including by helping reduce energy costs while limiting pollution and greenhouse gas emissions. Accordingly, we believe the GHGRF should prioritize Justice40 goals and should apply the principles of Justice40 to the entire program, including the \$11.97B for "general assistance".

The \$27 billion allocated for GHGRF must set the US economy on track for long-term success by building a financial ecosystem that provides continued support for a just and timely transition long after the first \$27 billion is allocated. To this end, GHGRF investments must seek new ways to develop financial products that can effectively leverage private dollars by mitigating project-specific investment barriers, address underlying risk drivers to improve project bankability over time, and demonstrate transactions that are replicable and scalable. Funds provided by direct recipients can be made scalable by making it easier for private sector entities to provide capital while providing a backstop to ensure that private capital is affordable for communities.

Direct recipients should be able to demonstrate flexibility and an ability to tailor products to i) investors' capital allocation drivers and ii) beneficiaries' needs and constraints. In practice, this means recognizing that the types of things we can expect major commercial banks to finance are very different from what private equity or venture capital investors, for instance, can be mobilized to support. It also means ensuring that recipients of GHGRF grants are equipped and accountable to designing innovative financial assistance that address the underlying risk drivers for borrowers and investment beneficiaries.

To ensure additionality, investments by direct and indirect recipients will need to be tailored to the local and regional-specific barriers to affordable financial access, especially in low- and middle-income communities. Recipients of funding should be able to demonstrate the capabilities to achieve these goals, including by having effective governance and operating models and the financial acumen and investment track record to pursue replicable and scalable investments. For instance, direct and indirect recipients must seek new ways to build credit quality without using up borrower credit, helping make transition investments the default option for US businesses and consumers without negatively impacting balance sheets. This means not only making climate investments cost effective, but also creating opportunities for scale and impact by solving for underlying risk drivers.

A central challenge in program design will be balancing the need to tailor technical and financial assistance to local, context-specific transition risks and opportunities with the need for scale to facilitate learning spillovers nationwide and achieve scalable, replicable impact. For instance, regional variation in transition risks and opportunities will be significant, and regional diversification of risks across a portfolio may be necessary to deliver certain investment products at low enough capital costs to ensure additionality. Direct recipients should be able to demonstrate the financial capacity and flexibility to structure innovative and effective products, the governance to ensure accountability to specific outcomes, and the local networks and track records to understand context-specific transition risks and facilitate useful and additive access to financial products and services in communities and small businesses across US states and regions.

EPA's most critical responsibilities are designing an RFP and evaluating applications in a way that ensures direct recipients are well-positioned to deliver against certain key metrics, and prudently disbursing capital in a way that avoids bottlenecks, ensures accountability to impact, and creates space for learning, innovation, and adjustments over time based on tracking against the same key metrics. These decisions are critical to set the GHGRF program up for long-term success. At the same time, EPA does not need to unilaterally decide how all funds will be spent upfront. Financing needs will evolve over time as markets transition. In some cases, funding from the GHGRF will become much more impactful once certain markets and investment opportunities have had time to develop the ability to utilize GHGRF funding. In turn, the role for GHGRF will need to evolve to ensure continued additionality and effectiveness. Flexibility and accountability for long-term impacts are both key. EPA should immediately allocate an initial tranche of funding from the GHGRF as early as February 2023, at least for technical assistance and workforce development, especially in low-income and disadvantaged communities, leaving more time to develop the program and optimize allocation for the rest of the funding.

We hope our responses to select RFI questions herein support EPA in design and implementation of the GHGRF.

RMI Responses to Select RFI Questions

Section 1: Low-Income and Disadvantaged Communities

Question 1.1. What should EPA consider when defining “low income” and “disadvantaged” communities for purposes of this program? What elements from existing definitions, criteria, screening tools, etc., - in federal programs or otherwise - should EPA consider when prioritizing low-income and disadvantaged communities for greenhouse gas and other air pollution reducing projects?

EPA should initially apply the Justice40 definitions of disadvantaged communities, as outlined in the interim implementation guidance issued by the Office of Management and Budget (OMB), along with the Treasury Department’s New Markets tax credit definition of low-income communities at 26 U.S.C. § 45D(e). Using these definitions as starting points will provide for alignment with the Biden Administration’s Justice40 initiative as well as compatibility with recently enacted tax incentives.

Definitions could over time be modified 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 line with the Climate and Economic Justice Screening Tool (CEJST) methodology that considers additional environmental, climate, and threshold socioeconomic indicators on communities. These factors can be the primary criteria for identifying place-based investment areas, specifically for the \$7B in state and local funds and \$8B for non-profit lenders for LMI areas.

OMB directs agencies to define “community” as “either a group of individuals living in geographic proximity to one another, or a geographically dispersed set of individuals (such as migrant workers or Native Americans) where either type of group experiences common conditions.” In determining whether a specific community is “disadvantaged,” agencies are to consider “appropriate data, indices, and screening tools ...based on a combination of variables” (emphasis added) including racial and ethnic residential segregation, disproportionate impacts from climate change, high energy cost burden, etc. EPA should thus interpret “disadvantaged communities” through the lens of cumulative impacts, recognizing that these communities are confronted with many different, overlapping, and combined environmental, public health, and socio-economic burdens, as well as varying vulnerability and risk factors. Direct recipients of GHGRF funding should also account for the importance of reaching low-income and disadvantaged individuals in communities that may not be classified as low-income and/or disadvantaged.

We recommend that EPA consult with the Agency for Toxic Substances and Disease Registry (ATSDR), which recently developed an Environmental Justice Index to measure cumulative impacts, as well as states like California, which has incorporated cumulative impacts into its CalEnviroScreen mapping tool since the first version released in 2013.

Other existing definitions, criteria, and screening tools that EPA could reference to evaluate the robustness of eligible entities’ equity principles and direct recipient’s ongoing achievement of equity outcomes include:

- The California Climate Investments framework¹, which prioritizes investments to maximize benefits for LMI communities
- Outcomes from the Community Reinvestment Act’s modernization², including leveraging lessons learned from the comment period held earlier this year on how to define low-income and disadvantaged communities, especially with respect to climate-related risks
- Leveraging the EPA’s Environmental Justice Screening and Mapping tool, which identifies disadvantaged communities in states and regions where such screening tools are absent or where EPA’s tool is more robust in identifying cumulative burdens
- The California Public Utilities Commission’s (CPUC) Environmental and Social Justice Action plan, which includes an Equity Framework for staff to evaluate “Environmental and Social Justice” impacts across proceedings. Table 1 in the Appendix outlines some excerpts from the CPUC Equity Framework.
- Washington’s Environmental Justice Task Force which recommends that “agencies should adopt, and the Legislature should consider, requiring EJ analyses...that combine the cumulative impacts of environmental health indicators such as environmental exposures, environmental effects, impact on sensitive population, and other socioeconomic factors.”³

Question 1.2. What kinds of technical and/or financial assistance should the Greenhouse Gas Reduction Fund grants facilitate to ensure that low-income and disadvantaged communities can participate in and benefit from the program?

Our response to this question includes primarily recommendations for technical and financial assistance in the US buildings and residential sector, based on our Carbon-Free Building Team’s expertise and experience. This list is therefore not exhaustive of the broader types of technical and/or financial assistance that might be important for GHGRF grants to facilitate.

Technical Assistance for Community Based Organizations (CBOs):

To ensure equitable implementation of GHGRF, we recommend that EPA create application requirements for direct recipients to facilitate robust community engagement. We also encourage EPA to assist direct and indirect recipients to take advantage of other concurrent technical assistance (TA) programs, including the Climate Pollution Reduction Grants and the Environmental Justice Thriving Communities Assistance Centers Program. Further, we urge the EPA to set aside and immediately disburse a tranche of funding as early as February 2023 to support early investment in low-income and disadvantaged communities to enable community participation and inclusiveness for meeting program objectives and goals.

Direct recipients should prioritize applications and TA that can take advantage of complementary programs and avoid redundant planning. Direct recipients should also provide grants to community-based organizations that conduct outreach and technical assistance to foster participation in decision-making processes, support ongoing equity initiatives, and provide clean energy access opportunities. For example, CBOs and other indirect recipients working with frontline communities should be provided TA and resources to support community engagement on investment opportunities. Such capacity building efforts would lead to better procedural equity in the administration of the GHGRF, especially given that

¹ https://ww2.arb.ca.gov/sites/default/files/auction-proceeds/ccidoc/criteriatable/criteria-table-landcon_draft_2021-05-03.pdf

² https://www.federalreserve.gov/apps/foia/ViewComments.aspx?doc_id=R-1769&doc_ver=1

³ <https://lawfilesexternal.wa.gov/biennium/2021-22/Pdf/Bills/Session%20Laws/Senate/5141-S2.SL.pdf#page=1>

many CBOs today are under-resourced and lack capacity to utilize funding they may otherwise be well-positioned to take advantage of.

Specifically, direct recipients' applications should include plans to fund capacity building and staffing in projects and programs to support the demand and deployment capacity for low-cost financing in frontline communities. Without this upfront effort, direct recipients may struggle to efficiently deploy funds and manage larger balance sheets. Using GHGRF funding for these purposes is aligned with the legislative objective of maximizing GHGRF operability through building long-term capacity for direct recipients. The GHGRF is well-suited to allocate resources to these efforts that few other stakeholders can provide, including project-enabling financing (e.g. upfront capital for project developers), project-enabling grants to governments in tribal and low-income communities (e.g. for project planning assistance or legal support), or other project-enabling resources for organizations that directly interact with frontline communities (e.g. training for project citing and permitting requirements).

For example, direct recipients could support building sector projects by specifically allocating money for capacity building and staffing in roles such as energy auditors, contractors and installers, manufacturers, and maintenance staff. In addition to project staff, within low-income and disadvantaged communities, trusted messengers like CBOs must be given the resources they need to reach target audiences and aggregate project demand.

Several resources exist that may help facilitate the development of technical assistance for entities like CBOs. For example, the Georgetown Climate Center's Equitable Adaptation Legal & Policy Toolkit⁴ provides some practices for improving procedural equity especially focused on government entities. The toolkit offers a helpful definition for procedural equity: "the commitment to communities having a voice in decision-making processes, and that adaptation planning and implementation are done through diverse and inclusive engagement processes."

Additionally, the 100% Network⁵ provides resources for developing energy policy and procedures by co-convening and developing accountability to experts from Black, Indigenous, and People of Color (BIPOC) and other frontline communities. Since participation in the creation of these policies can be resource-intensive and highly technical, direct recipient applications should demonstrate intent and capacity, and be properly capitalized via GHGRF grants, to conduct transparent, inclusive, and accessible policy procedures and accountability mechanisms. Ideal policy processes should include meaningful public participation and community-driven planning and implementation strategies given the direct impact that energy policies have on these communities.

Technical Assistance for Contractors:

TA should facilitate lowering the upfront costs (equipment purchases, insurance, permitting, additional lines of credit, etc.) of expanding contractor capacity. These financial products should work to, among other things, hire and train new installers and upskill existing installers, and fund workforce development nonprofits. Limited capacity, lack of upfront capital, and complex application processes can make it challenging for contractors to benefit from a new set of zero-carbon investment opportunities. For example, although there has been an increase in programs across the country that encourage switching from gas to electric infrastructure, subsequent labor shortage challenges have

⁴ <https://www.georgetownclimate.org/adaptation/toolkits/equitable-adaptation-toolkit/procedural-equity.html>.

⁵ https://assets.website-files.com/5fd79e486925d847f843cad8/5ffcaf1b7e91d46d7bd54a0f_100-network_comprehensive-building-blocks-for-a-just-regenerative-100-policy-2020.pdf

made it challenging to take advantage of these opportunities. The Michigan Saves Contractor Center is an example of a green bank providing training, resources, and connections between homeowners and contractors. Through Michigan Saves, contractors can earn a certification which allows them to connect with building owners with fewer barriers while simultaneously providing building owners with a sense of confidence.

Technical Assistance for Affordable Housing Owners:

Many affordable housing owners lack the capacity to navigate and participate in federal programs. Owners have varying expertise and capacity to navigate such funding. Many owners do not understand the nuances of newer technologies as they relate to energy. Understanding energy and water efficiency upgrades, choosing the right technology that matches those needs, identifying contractors that could install those technologies, and navigating the funding application all require significant time and expertise. Direct recipients could, for instance, provide planning grants to help with project scope and development to meet high efficiency and GHG reduction goals. Such assistance would ideally be structured around a [one-stop-shop approach](#), to ensure that housing providers do not individually have to navigate a multitude of agencies or programs to secure funding approvals. Such an approach allows home and building owners to access funding, contractors, and technical assistance in one easy to access program that provides comprehensive retrofits. Relatedly, we encourage EPA, DOE, and HUD to coordinate on designating a network of approved one-stop-shop technical assistance providers. With such a network, housing owners could easily coordinate with the necessary vendors for assistance with the planning grant stage, implementation stage, and/or evaluation stage. This one-stop-shop approach will be particularly valuable for expanding access to funding opportunities provided by direct recipients, especially for organizations with minimal staff capacity. Scaling one-off programs into accessible sources of funding available in every community across the country will require national information sharing, restructuring of funding sources, and a commitment to accessible whole-home retrofits.

Financial Assistance:

To support affordable, safe, and healthy homes, direct recipients should support funding neighborhood-scale electrification pilots, community resiliency centers and hubs, and holistic building and home upgrades that will phase out fossil fuel end use in low-income and disadvantaged communities. This funding should specifically target lower-income residents that are either ineligible for or may not be able to access tax incentives in the IRA for a variety of reasons, such as where residents do not have sufficient tax liability to take full advantage of available tax credits (see Question 2.8). As already highlighted, these programs should be complemented with robust TA support and implemented with the assistance of CBO partners. In addition, direct recipients' funding should remain flexible. Flexibility is particularly relevant in the funding of resiliency measures, where the needs of communities and buildings will vary widely based on a range of regional or location-specific factors.

Grants could facilitate funding to pay out federal tax credits upfront, such as those for renewable energy development, electric vehicles, and building electrification. Providing upfront payments would reduce financed project costs and stimulate deployment among individuals, communities, or small businesses who may not be able to afford waiting nine months for tax refunds. Grants can also facilitate low-cost financial assistance to renters and individuals without federal tax liability, both of whom may struggle to take advantage of the federal tax credits (see Question 2.8).

Question 1.3: What kinds of technical and/or financial assistance should the Greenhouse Gas Reduction Fund grants facilitate to support and/or prioritize businesses owned or led by members of low-income or disadvantaged communities?

TA will be especially important for minority contractors, particularly minority- and women-owned business enterprises (MWBEs) within disadvantaged communities, who find high barriers to entry in accessing federal and state funds. Accordingly, grants should facilitate TA for small and minority-owned contractors that provide comprehensive workforce development training and ways to apply for and leverage similar programs.

Financial products to lower the upfront costs of expanding contractor capacity (see Question 1.2) should also work to, among other things, expand or establish minority-, women-, or veteran-owned contractor companies and fund technical assistance for MWBE contractors.

TA should enable contractors (and small-business retailers) in low-income and/or disadvantaged communities to engage with the IRA's electrification rebates program. Because the rebates are required to occur at the point of sale, contractors may face a significant delay in reimbursement from State Energy Offices. As an example of how to address this problem, the direct recipients could deliver bridge financing to pay out participating contractors in the electrification rebates program within a matter of weeks, not months.

Section 2: Program Design

Question 2.1. What should EPA consider in the design of the program to ensure Greenhouse Gas Reduction Fund grants facilitate high private-sector leverage (i.e., each dollar of federal funding mobilizes additional private funding)?

The experience of publicly funded entities (e.g., bilateral and multilateral development banks) indicates a tension between fiscal prudence and additionality in lending when non-grant instruments must demonstrate financial performance. Entities often resolve this by creating and funding transactions that are *nearly* commercial, which can risk crowding out private sector finance and undercutting the impact of their lending.

Direct recipients should demonstrate how they plan to resolve this tension by 1) developing or possessing expertise on sectors and regions that are likely to require funding to drive GHG reductions in line with the US climate goals, 2) awareness of the stakeholder and political scrutiny that accompanies potentially loss-making transactions and 3) a description of their credit approval policies that are designed to maximize impact while prudently managing risk.

Relatedly, we believe that it is important for direct recipients to demonstrate their intent and ability to structure products flexibly and in a way that embraces the right amount of risk in their application to receive GHGRF funding. RMI is well-positioned to facilitate convenings between direct and indirect funding recipients and private financial institutions along with the EPA. Such convenings can provide the opportunity for private sector stakeholders to proactively inform the development of investment products by signaling demand for which types of investment solutions are most effective across different regions and markets, reinforcing the ability of direct recipients to leverage private-sector capital.

EPA should also ensure that the investment products developed by direct recipients are targeted to context-specific investment barriers to unlock and leverage private dollars, rather than compete with

and crowd out private capital. For instance, investors often perceive higher credit risks or face higher transaction costs as an extra barrier to investment in low-income and disadvantaged communities. Using funds facilitated via GHGRF to offset these risks with lower-cost concessional debt could introduce flexibility to unlock and access private capital sources. EPA should seek to award funding to entities that can demonstrate both a track record and intent to design investment programs capable of addressing these barriers, such as by including an RFP question on how recipients will design products that are responsive to context-specific investment needs.

As a dynamic underlying these objectives, it is important to focus on the fact that private-sector financing has historically underinvested in low-income and disadvantaged communities. Direct recipients should demonstrate the capability to fill this financing gap by providing solutions that are accessible to low-income individuals and communities, credit-enhancing (so as to decrease perceived and actual risk), flexible (to meet projects where they are), and long-term (to allow retrofits to become cash-positive).

Below, we walk through an example of the electric vehicle (EV) charger market in the US as an example for how eligible direct recipients can tailor investment products for priority investments in a way that maximizes GHG emissions reductions, benefits low-income and historically disadvantaged communities, creates additionality, recycles repayments, and leverages private capital. Below the example, we highlight takeaways for GHGRF program design.

- **Market context:** The investment opportunity presented by EV chargers has evolved over the past decade as the technology has advanced in commercialization. Around 2010-2013, the US saw the first buildout of public EV charging infrastructure. Since then, operational risks have decreased while confidence in future demand for EVs has increased. Today, the US has approximately 100,000 public chargers.
- **Barriers to investment and market scaling:** Despite progress, EV chargers have not fully reached maturity and market scaling, and deployment remains mainly one-off. As the investment opportunity associated with maturing EV chargers has evolved over time, different investor types have gotten into the mix. The initial deployments in the early 2010s were thanks to a \$15 million Recovery Act grant that mobilized venture capital funding in a start-up, ChargePoint America. Today, the landscape looks different. ChargePoint is a public company, and other charge point operators have also gone public. Yet EV chargers have yet been able to demonstrate the viability of their business model enough to tap institutional investors and project finance. Debt at scale remains a key barrier to moving fully into market scaling, where guaranteed offtake can be leveraged into upfront capital. Those are the investors public investment needs to mobilize now.
- **Tailoring to community barriers:** Despite progress in the EV market overall, the story is different in different market segments. While EV chargers today are on the verge of market scaling in some places, some low-income and disadvantaged communities are considered charger “deserts” and have yet to see their first installation. The risk premium for EV chargers in these communities is prohibitive – there are many reasons for this, including political, but also some specific to private investors – including increased demand risk due to lagging uptake of electric vehicles, as well as higher transaction costs (more multi-family residences, more stakeholders to consult). While the industry may be close to tapping institutional investment for some market segments, that is not the case across the economy. Understanding how these distinct barriers shape private investment decision-making is important in designing public investment that

satisfies Justice40 goals and pushes EV chargers to market scaling in even low-income communities.

The story of EV charger deployment in the US demonstrates some key dynamics that EPA should apply to reviewing applicants to GHGRF through any future RFPs:

1. Priority investments for greenhouse gas reductions will evolve quickly, and financial assistance that may be considered “additional” today may quickly become redundant as markets adjust and new public finance policies and programs emerge. Direct recipients should be evaluated on their ability to monitor and agilely respond to evolving market dynamics, and they should be held accountable to additionality criteria that are equally flexible.
2. The types of financial assistance that will be effective in leveraging private capital and fostering new markets will be specific to the financing need and the type of private capital that could be leveraged based on the investment opportunity. While venture capital blended with grants was successful for early EV charger deployment, providing debt at scale is the next challenge to continue EV charger proliferation. Direct recipients should be evaluated on having the financial acumen and private sector relationships to develop fit-for-purpose financing products. EPA can also support these outcomes by ensuring some funding recipients are sufficiently capitalized to provide larger scale financial assistance to leverage larger institutional investors and commercial banks who can help accelerate market scaling.
3. Financing needs are not homogenous across the US, and additive financial assistance will need to be tailored to local market contexts. Direct recipients should be evaluated on their plan for effectively reaching communities across the US, including through pass-through of funds to indirect recipients with appropriate networks and attention to technical assistance and community engagement needs.

Question 2.2. What should EPA consider in the design of the program to ensure Greenhouse Gas Reduction Fund grants facilitate additionality (i.e., federal funding invests in projects that would have otherwise lacked access to financing)?

We strongly agree that the EPA requires that the allocation of GHGRF funds should be decided based on a set of principles to maximize additionality. We believe that the burden of proof should primarily be on direct recipients to demonstrate that they offer a unique additionality proposition not found through other available funding, including private markets; other flexible funding available through national, state, or local sources (including IRA); or the business-as-usual financing activities of existing green banks or other financing institutions. In practice, additionality will be complicated to define, and assessments will need to be context-specific with flexibility to evolve over time. For instance, in the buildings sector, if a state agency were to make a net-zero commitment through their Qualified Allocation Plan, certain types of financial assistance facilitated via GHGRF grants may no longer be considered “additional”.

Possible criteria for evaluating additionality could include:

- **Impact:** What traditionally underserved geography/sector/income-group/market will the recipient focus on, and what gap does this address? In other words, why is this investment important for national climate and just transition goals, and what barriers exist to it otherwise being financed at the pace and scale required? Importantly, an evaluation of “impact” should acknowledge the ecosystem of financing needs to foster enduring markets and deliver a low-

carbon transition economy-wide. Financing needs can include cost of capital differentials due to technological risk, default credit risk, etc.; presence of complementary infrastructure (e.g., EVs and EV chargers); transaction costs; sufficient workforce and associated training resources; and more. Relatedly, impact assessments should consider the extent to which the financing could not have been delivered via alternative public or commercial interventions. Finally, measures of market creation are important to understand impact, including economic and learning spillovers, leveraging commercial financing, and likelihood of replication.

- **Resources:** What differentiated resources/expertise/capacities will the recipient have, or be well-positioned to develop, that will allow it to address specific investment barriers that currently inhibit private investment? Recipients should be able to demonstrate the financial acumen and flexibility to design financing products that can be tailored to an evolving landscape of financing needs and targeted to the unique risk/return constraints of different types of capital providers.
- **Institutional structure:** What risk/reward profile will the recipient adopt that puts it in a position to lend or provide technical assistance where other entities will not? How will their institutional structure, including governance and incentives, support delivering on proposed impact?
- **Risk management:** will a portfolio or project-level risk management approach be implemented? What relevant experience do key personnel have in developing impact-focused climate finance projects? What are the direct recipient's proposed investment evaluation, asset management, and impact assessment processes? A direct recipient's approach to risk management is a critical component of additionality. Too conservative of an approach risks eliminating the potential of additionality for GHGRF funding outside of grant-only funding, and seeking returns that are too near commercial may risk crowding out private capital (see Question 2.1) (and, in effect, generating minimal additionality in terms of increased access to affordable financing).

For example, the EPA might determine that an equitable geographic distribution of funds is the most important impact criterion upon which to implement the program. Several regional entities – possibly representing multiple states, such as the “Great Lakes” or “Mountain West,” (similar to the Federal Reserve Board system) could apply based on a determination that they are better able to develop regionally-specific resources to maximize their impact.

Additionally, we believe that the GHGRF represents an opportunity to introduce a needed shift in how US green banks consider and execute their role as unique providers of climate finance. For example, we believe that green banks, including the providers of GHGRF funds, can and should work to solve the root drivers of climate risks in addition to providing grants and concessional funding. Although traditional roles for green banks have enabled important transaction-level financing for climate solutions, a more impactful approach would target long-term risk drivers and fostering markets for continued commercial finance investment. Further, funding should be additional in the sense that it reinforces balance sheets without otherwise negatively impacting a borrower's ability to obtain other sources of finance.

The EPA and direct recipients should consider how GHGRF funding can be designed to stack with other funding sources. Allowing the program to stack funds will help drive down costs and ensure compatibility to maximize GHGRF funding reach and additionality. Ensuring regional and state organizations autonomy and legitimate representation over the funding will maximize its effectiveness because they have the best insight into applicable existing state and regional funds, the degree to which existing funds are already meeting the needs of individuals and communities, and how direct recipients can provide what existing financing does not.

Question 2.3. What should EPA consider in the design of the program to ensure that revenue from financial assistance provided using Greenhouse Gas Reduction Fund grants is recycled to ensure continued operability?

To ensure that revenue from financial assistance is recycled in a way that achieves continued operability, we believe that the EPA should consider allocating funds such that:

- Direct recipients will be sufficiently capitalized to pursue a diversified portfolio, including some larger deals, of replicable and scalable investments. The ability to bundle smaller loans of different sizes, risks, and locations for sale to institutional or commercial investors will help replace GHGRF loans with private capital and drive lower cost financing for those projects.
- All direct recipients should have the flexibility and financial acumen to take riskier financial positions, which will help with additionality. Examples could include investing in a way that may not be palatable to private capital or by investing in a way that will be replicable by private capital in the future once the deal structure has been proven (see Question 2.4).
- Designing beneficial, additional, practicable, and effective financial assistance will require significant engagement with local communities and private capital providers, and therefore significant transaction costs. Further, financial assistance will often need to provide concessions and beneficial rates. These realities present a natural tension with earning a high enough return on investments for sustained operations, which should be taken into consideration in program design to ensure the right incentives for impact are in place. For instance, direct recipients should demonstrate that their governance structures and operating models provide the right incentives for designing and deploying products that effectively leverage private capital to address local- and regional-specific barriers and needs (see section 1). In other words, incentives should be tied to pre-defined impact metrics rather than to traditional incentives that financial institutions may be familiar with, such as transaction volume or returns maximization. CDFI governance requirements used by the Treasury may be a helpful model of criteria that could be used. EPA must appropriately consider the other goals identified in the legislation – to assist low-income and disadvantaged communities, to prioritize investment that is additional, and to achieve rapid and impactful deployment of funds – which at times may be in tension with recyclability.

We also note that a portion of necessary GHGRF disbursements may be ineligible for recycling, and we encourage the EPA to allow for some initial flexibility for recipients to utilize funds to scale up their capacity to leverage future GHGRF funds (see section 1). For example, it is likely that a significant amount of initial funding will need to be allocated in the form of capacity-building grants to build the financing ecosystem of lenders to provide programs, services, and products for GHG reduction activities (e.g., hiring staff, internal upskilling, and/or identifying projects via stakeholder convenings). Even where lenders have existing experience and expertise in these activities, additional technical and financial assistance may be needed in these specific technologies and sectors.

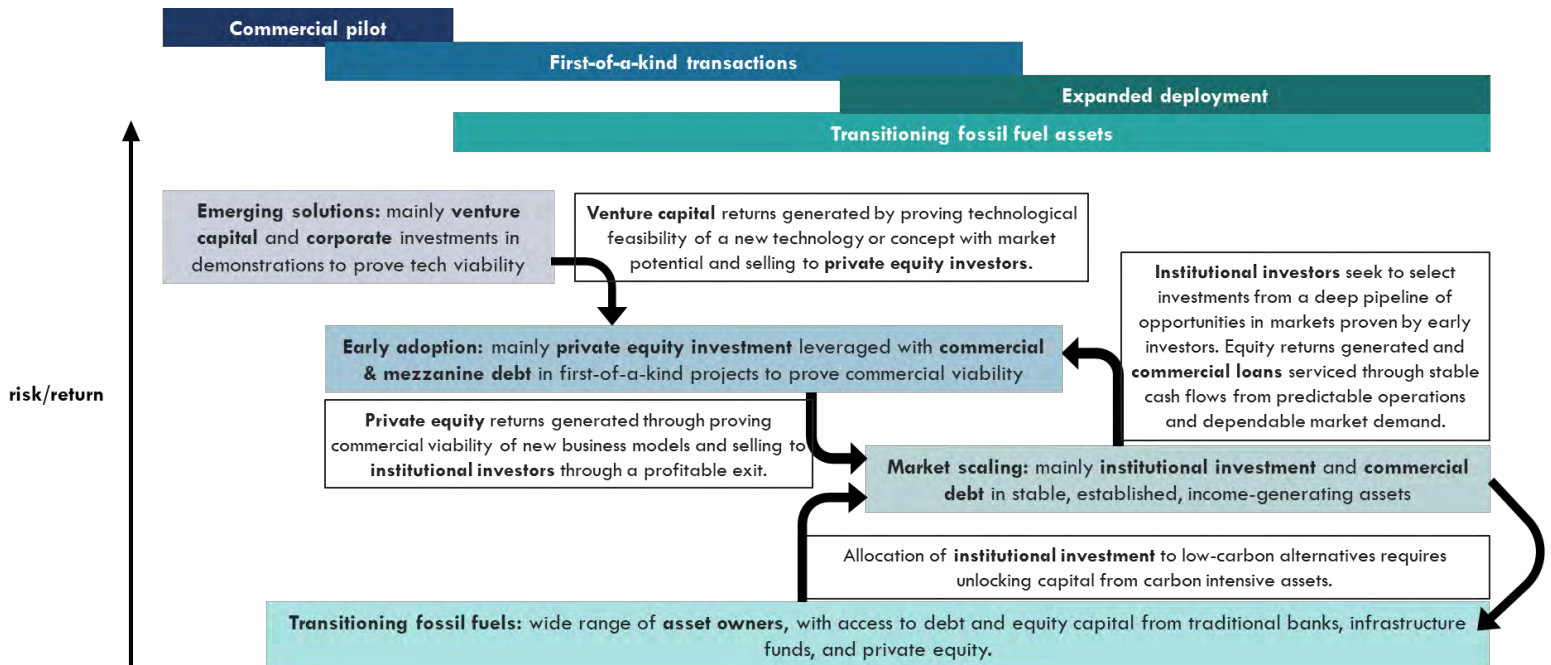
Question 2.4. What should EPA consider in the design of the program to enable Greenhouse Gas Reduction Fund grants to facilitate broad private market capital formation for greenhouse gas and air pollution reducing projects? How could Greenhouse Gas Reduction Fund grants help prove the “bankability” of financial structures that could then be replicated by private sector financial institutions?

GHGRF funds present an opportunity for direct recipients to structure first-of-a-kind deals. Beyond enabling financial viability of these deals (see Question 2.1), concessional and blended financial assistance from direct and indirect entities should be designed in a way that demonstrates replicable

transactions that could be fully financed by private FIs after the transaction has been demonstrated once, decreasing risks. In other words, GHGRF grants should facilitate investments by direct and/or indirect entities that help create a blueprint to scale transactions more efficiently. Direct recipients should demonstrate the capacity to take on the “sweat equity” for unproven deal structures and create replicable models for private capital. For instance, low risk stakes (e.g., grants) do little to demonstrate a viable business model that will eventually attract private investors because the investment proposition is not realistic for private market risk/return expectations.

In addition to identifying and demonstrating replicable investment structures, direct recipients can foster markets by paying attention to how financing for low-carbon solutions at one stage of the “innovation chain” changes the future investment opportunity for other investor types. By “innovation chain”, we refer to the process a low-carbon solution takes, starting with early research, development, and demonstration, and advancing to commercial pilots, first-of-a-kind transactions, and expanded deployment. At each stage of the innovation chain, different types of private investors may be interested, based on the risk/return opportunity, loan tenor, and deal size presented. For instance, public investment can help demonstrate the business model for efficiency retrofits, which not only mobilizes private capital for that distinct investment, but it also mobilizes future private investment by more mature investors (see graphic below). In other words, direct recipients can optimize the impact of their financing by identifying the problem with the supply chain of finance and developing solutions to move the market forward.

RMI’s Center for Climate-Aligned Finance is well-positioned to help EPA and any direct recipients in assessing investment products and services that will facilitate accelerated replication and uptake by private FIs.



Question 2.5. Are there best practices in program design that EPA should consider to reduce burdens on applicants, grantees, and/or subrecipients (including borrowers)?

Relatedly, we believe that products offered by direct recipients should be developed to address the underlying risks and burdens for borrowers and funding recipients (e.g., balance sheet / solvency

constraints) as well as ultimate beneficiaries through innovative products (e.g., insurance-like products). Green Banks to date have largely focused on how to unlock the benefits of clean energy by de-risking lending to disadvantaged communities for clean energy. But this approach does nothing to address the risks faced by those communities and individuals – and may even make their financial challenges worse.

RMI believes that the direct recipients' funding should look beyond making the provision of senior debt for investment in these communities attractive, and instead consider a broader scope of financial products – including subordinated debt, insurance and equity products – that are tailored to address some of the key underlying risks that low-income and disadvantaged communities face in the context of the energy transition, and that do not excessively rely on cash flows from low-income residents. Among green bank products, we believe it will continue to be necessary to focus on innovative options (insurance, derivatives, etc.) that mitigate or transfer the risks and costs that disadvantaged communities bear in the clean energy transition. Where loans are the appropriate solution, lenders should identify ways to ensure loans are affordable (low or no interest) and accessible (low or no credit requirements). For example, instead of providing loan-loss reserves, direct recipients could consider instead providing credit enhancements for consumers, like wage or property value insurance products contingent on clean energy investment and employment.

Transparency and fairness regarding all costs associated with funds provided to indirect recipients is also important. Excessive rates, fees, management fees, overhead allocations, or other revenues and cost recovery earned on the provision of funding to indirect recipients can create substantive barriers to GHGRF participation and to deploying funds into projects and can therefore diminish the level of benefits delivered to end-use borrowers, particularly low-income households and communities. Excessive application and reporting requirements for indirect recipients can create burden as well, and eligible recipients should be prepared to provide tools, systems, and support to ease these burdens.

Additionally, direct recipients should look to streamline requirements for funding applications from indirect recipients and qualified projects, especially if there are multiple direct recipients of the GHGRF funds that communities would need to navigate to apply for funding with. As an example, [Philadelphia's Built to Last program](#) is a model of a successful streamlined model to access local finance. Program participants applied through a single application that gave them access to over 15 sources of funding, including utility money and healthcare funds, to support a comprehensive retrofit program.

Finally, financial assistance should be flexible enough to cover a broad range of eligible participants and financing barriers. Overly prescriptive or rigid requirements could ultimately preclude eligibility for local programs. Rather, broad, yet clear, guidance on which indirect recipients and ultimate beneficiaries are eligible to receive financial or technical assistance from direct recipients will support inclusivity and efficiency.

Question 2.8. What federal, state and/or local programs, including other programs included in the Inflation Reduction Act and the Infrastructure Investment and Jobs Act or “Bipartisan Infrastructure Law,” could EPA consider when designing the Greenhouse Gas Reduction Fund? How could such programs complement the funding available through the Greenhouse Gas Reduction Fund?

A few recommendations for strategies that GHGRF recipients could employ to complement and reinforce programs under the Inflation Reduction Act (IRA) include:

- Mitigating consumer risks and offsetting costs associated with claiming tax credits and contractor rebates. For instance, zero-cost bridge loans, guarantees, or make-whole payments can mitigate

instances where claimants need the financing immediately, or where they may be ineligible to receive the total tax credit or rebate amount based on their tax status. Specifically, financial assistance could include zero-cost bridge loans against an individual's estimated 25C or 25D tax credit value to make these credits as accessible as possible. If the IRA's HOMES rebate program does not provide rebates upfront, bridge loans for electrification projects should be applied there, too. In addition to maximizing the value of consumer incentives, direct recipients could deliver bridge loans to affordable housing and nonprofit building owners who claim the Section 48 ITC. Bridge financing could also pay out participating contractors and retailers in electrification rebates program over a more reasonable timeframe, e.g., weeks.

- Tax credits and rebates have historically failed to benefit members of low-income and disadvantaged communities, where residents often do not have sufficient tax liability to take full advantage. For example, more than 4 in 10 tax filers who have zero or negative tax liability will not be able to claim the 25D tax credit, and 7 in 10 tax filers will not have sufficient tax liability to take full advantage of the credits.⁶ GHGRF funding directed to those households and communities can therefore achieve additionality.
- Likewise, most renters, who constitute a majority of low-income and disadvantaged communities, will be unable to take advantage of IRA's tax credits and rebates, since both types of incentives would require coordination and cooperation from property owners. Since renters are largely excluded from participating in and benefiting from renewable energy development, prioritizing supporting projects that benefit renters will be very likely to provide additionality. Such projects may include developing community solar projects that serve renters, or rooftop solar and storage projects on rental properties.
- Lowering the financed cost of electrification in cases where the IRA's electrification rebates do not fully cover the upfront cost of electrification. This is especially important for moderate-income families, for whom the rebates cover only 50 percent of the cost of electric appliances.
- Financing electrification readiness, which would enable more households — especially those in low-income or disadvantaged communities — to take advantage of the IRA's electrification rebates and tax credits.
- Complementing funding received from the new Section 1706 authority of the Loan Programs Office, the Energy Infrastructure Reinvestment program (EIR). EIR provides low-cost capital, through the form of loan guarantees, to reduce greenhouse gas emissions of energy projects and repurpose existing infrastructure for new, productive uses that can provide economic opportunity for communities. EIR has a wide range of potential uses and is designed to quickly provide low-cost capital that can help transition climate-polluting assets. For example, EIR could provide a loan guarantee that would pay off the remaining plant balance of an uneconomic coal plant, as well as provide low-cost debt to replacement clean energy projects, while financing facilitated via GHGRF could complement by contributing to reinvestment in clean energy projects or support for a just and equitable transition for impacted communities. This example could be replicated in many different sectors. EPA should consider how to streamline joint applications through LPO to make distribution of funds as efficient as possible while maintaining necessary audit procedures.

⁶ <https://rmi.org/congress-cannot-ignore-residential-solar-tax-credit-inequities/>

- Complementing funding received from the USDA for Rural Electric Cooperatives. \$9.7 billion in grants or loans has been appropriated for cooperatives to deploy renewable energy, energy efficient projects, and other greenhouse gas reducing activities. EPA should consider how to streamline joint applications through USDA to make distribution of funds as efficient as possible while maintaining necessary audit procedures.

Section 3: Eligible Projects

Question 3.1. What types of projects should EPA prioritize under sections 134(a)(1)-(3), consistent with the statutory definition of “qualified projects” and “zero emissions technology” as well as the statute’s direct and indirect investment provisions? Please describe how prioritizing such projects would:

- *maximize greenhouse gas emission and air pollution reductions;*
- *deliver benefits to low-income and disadvantaged communities;*
- *enable investment in projects that would otherwise lack access to capital or financing;*
- *recycle repayments and other revenue received from financial assistance provided using the grant funds to ensure continued operability; and*
- *facilitate increased private sector investment.*

We believe that optimizing use of the GHGRF means not only making climate investments cost effective, but also creating opportunities for scale and impact. Funds provided by direct recipients can be made scalable by making it easier for private sector entities to provide capital while providing a backstop to ensure that such private capital is affordable for communities. They can also create meaningful impact by mitigating the drivers of transition risks at their core. This is especially important for low-income and disadvantaged communities and individuals, and we encourage EPA to require direct recipients, including through financial support to indirect recipients, to systematically assess how transition risks are likely to manifest for the stakeholders that funds will serve.

For instance, many low- and middle-income stakeholders (including households and small enterprises) may be too financially constrained to commit to relatively high-cost, upfront transition investments, even though such investments may pay off and provide net benefits in the long-term. Over time, this may result in the same stakeholders facing a disproportionate burden to transition their homes and communities. For example, comprehensive retrofits to affordable housing are more expensive than piecemeal retrofitting, which may leave many communities transitioning slower. Eventually, the last gas ratepayers will be stuck bearing a relatively higher share of the costs of gas trimming if they were unable to afford previous comprehensive electrification retrofits. This same dynamic will likely play out across sectors. For instance, the last drivers of internal combustion engine (ICE) cars will face higher risks and costs as gas stations become increasingly scarce, and this burden will fall disproportionately on low- and middle-income communities if their uptake of electric vehicles is slowed from limited access to affordable financing options.

We believe that a primary role of funding provided by direct recipients should be to bring transition costs in line with incumbent fossil fuel options as soon as possible to mitigate transition risks across the US. Consumers and businesses alike default to the most cost-competitive options, such as replacing a furnace when needed, and ultimately will remain locked into fossil fuel dependency over the long-term. To maximize greenhouse gas emission and air pollution reductions, the direct recipients should focus on projects across real-economy sectors that advance three buckets of activities to decarbonize markets:

- 1) **Green the grid:** investments that facilitate a transition away from polluting sources of generation (e.g., coal and natural gas) to renewable generation sources (e.g., wind, solar), including the early retirement of coal and natural gas generation, as well as investments in grid enhancements and storage to accommodate more, green generation:
 - a. Investment in the early retirement of fossil fuel generation and delivery infrastructure. In particular, direct recipients could create programs to accelerate the early retirement of the U.S.'s existing stock of high-emitting assets (e.g., by reducing the required returns needed from ongoing operations), as well as to develop just transition packages for workers and communities who may be impacted by or face risks from an accelerated shutdown.
 - b. Investment in equitable deployment of renewable generation, including community-and rooftop-solar, distributed energy resources, and virtual power plants. For example, innovative solutions could help address instances where buildings lack sufficient rooftop area to supply electrical demand on-site, as is common with multifamily buildings.
 - c. Investment in grid enhancements and storage that accommodate higher demand and more renewable supply, including addressing challenges around renewable asset and transmission siting, such as underlying equity issues (mainly related to surrounding property challenges). In short, we cannot deploy clean electricity and transmission at scale if we cannot site it, but siting tends to have a few big winners and many uncompensated losers stuck with the risk of lower property values, job prospects, or both. Novel financial products (e.g., insurance, options, etc.) provided by direct recipients could mitigate these risks, resulting in real consent-based development.

- 2) **Electrify the economy:** investments that transition real-economy sectors from reliance on fossil fuel for production to electrified end uses that can be powered by an increasingly green electricity grid, including:
 - a. In the buildings sectors, direct recipients should prioritize neighborhood-scale electrification pilots, community resiliency centers and comprehensive retrofits that deliver health and safety upgrades, weatherization and efficiency measures, appliance electrification (e.g., heat pumps and heat pump water heaters), and on-site or community renewables to ensure buildings are safe, healthy, and affordable to occupy (see Question 1.2). For example, this could include investment in trimming gas lines and replacing oil- and gas-powered appliances with all-electric ones (e.g., heat pumps and heat pump water heaters). Innovative solutions could also address financing barriers presented where residences are owned by landlords who do not pay the utility bills, or where buildings suffer from health and safety hazards that prevent electrification without upfront investments.
 - b. In the mobility sector, investment in replacing internal combustion engine vehicles with electric vehicles (EVs) and deploying charging infrastructure to enable EV uptake (including electric bikes and electrifying public transportation).
 - c. In industrial sectors, direct recipients should focus on investments into common transition-enabling infrastructure that is required to scale both private and public transition initiatives (e.g., hydrogen pipelines) and strengthen the capacity and reliability for the electrification of the grid (e.g., improvements to grid transmission infrastructure). DOE's hydrogen hubs, for instance, will be an important tool to

accelerate decarbonization across US cities, including as a useful complement to onshoring the Administration’s priorities for onshoring increased domestic manufacturing capabilities. These community transitions also prompt a secondary need for financing that investments facilitated via GHGRF will be well-suited to support, including to ensure housing, education, infrastructure, relocation, and overall compensation for communities that will be impacted by the transition.

- 3) Reduce demand from electrified end uses:** direct recipients should focus on investments that improve efficiency for electrified end uses (rather than investments reduce short-term emissions but prolong the useful life of fossil fuel-reliant technologies).
- a. Relatedly, direct recipients should be prohibited from directly funding fossil fuel combustion equipment or appliances or any building project that is installing new fossil fuel combustion equipment. Any project that locks in the combustion of fossil fuels — whether at the household or industrial facility level — for years to come should not be considered one that reduces or avoids emissions.

To enable investment in projects that would otherwise lack access to capital or financing, we believe a key focus of direct recipients should be on downstream dissemination and deployment of low-carbon solutions across market segments – including low-income communities – and in a way that ensures a just transition for historically disadvantaged and fossil fuel communities. We assume the US is already adept at using public finance to catalyze early stage and upstream RD&D investment, for instance through ARPA-E, and the case for doing so is widely understood and supported. In contrast to LPO, direct recipients can focus more on smaller projects (e.g., distributed energy resources (DERs), buildings, or distributed mobility). Please also see Question 2.2 for other ideas on how to enable investments in projects that would otherwise lack access to capital or financing.

For other ideas on how funds can recycle repayments and other revenue received from financial assistance provided using the grant funds to ensure continued operability, please see Question 2.3.

For other ideas on how funds can facilitate increased private sector investment, please see Questions 2.1 and 2.4.

Question 3.2. Please describe what forms of financial assistance (e.g. subgrants, loans, or other forms of financial assistance) are necessary to fill financing gaps, enable investment, and accelerate deployment of such projects.

Broadly, the direct recipients should leverage their unique programmatic flexibility to enhance and complement other federal and private climate mitigation spending and to fill gaps in traditional financing mechanisms. Direct recipients should be able to demonstrate flexibility and an ability to tailor products to i) investors’ capital allocation drivers and ii) beneficiaries’ needs and constraints. In practice, this means recognizing that the types of things we can expect major commercial banks to finance are very different from what private equity or venture capital investors can be mobilized to support.

Public investment needs to create the right incentives for the type of capital that needs to be mobilized for a given investment. An overly broad view of “private capital” neglects nuance critical to designing investments that investors will pay attention to and that their firms can actually work with. In other words, an effective direct recipient will not be successful by just throwing money at priority projects. Instead, the way the money is invested is also critical for the success of deployment. Direct recipients should therefore demonstrate an understanding of the importance of designing targeted investment

products that are tailored to the context, as well as the financial acumen to design and deploy effective interventions (see Question 2.3).

For instance, grants and tax credits are strong at improving the underlying economics of low carbon options to boost cost parity with incumbent fossil fuel options, but this is not always the challenge that needs to be solved for. Applicants should have to show how their investment products might help overcome:

- Challenges with deal size for smaller projects (e.g., aggregating smaller projects where ticket size is not significant enough for private financial institutions to get involved).
- Mismatches in time horizon (e.g., thru revolving loan facilities when savings from energy efficiency investments take longer to accrue than most private loan tenors)
- Future demand risks (e.g., through green procurement deals to guarantee markets for green products, or loan guarantees)
- Nascent market risks (e.g., guaranteeing or backstopping pipeline utilization rates for carbon capture and sequestration projects in early years)
- Operational risk, including offtake and technology risks (e.g., first loss debt and equity, or covering counterparty liabilities)
- Market coverage (e.g., loan grace period, forgivable debt financing)
- Transactions costs (e.g., warehousing and aggregation or technical assistance grants)
- Need to refinance financial obligations, such as for coal plant asset owners (e.g., sustainability-linked debt forgiveness or direct loans to enable securitization)

For example, building electrification projects may require a mix of funding sources that vary by project depending on individual circumstances and other available incentives. Direct recipient investments should facilitate projects and places that traditional lenders and investors may not be comfortable with based on their traditional products, services, and capital allocation requirements for things like project risk, return, deal size, and loan tenor. For example, one funding barrier in the buildings sectors is a lack of flexibility in repayment horizon and the capacity to provide long-term debt. Most traditional loan products — which are often tied to repayment periods of ten years or fewer — fail to provide the long-term flexibility needed for building electrification projects to become cash-positive as savings from energy efficiency improvements accrue more slowly than the average investment horizon.

Instead, direct recipient investment products should align revenue timing with investment horizon, including via bond financing to spread costs over a longer time span, or via an Energy Services Company (ESCO) model where upfront capital costs can be repaid through savings over time. Measures like this would ensure that affordable housing providers and other consumers can afford the repayment terms on electrification projects and extend low-cost financing to all electrification projects, not just the projects that deliver short-term financial benefits.

Yet there will not be a one-size-fits-all financial assistance solution to various investment barriers. For example, revolving loans funds can improve access to capital and mitigate illiquidity, including as bridge financing until rebates are paid out. Direct recipient funds could also be applied to guaranteeing revenue streams, including by guaranteeing a payment for future carbon reductions or through interest rate buy-downs. If investors perceive higher default risk or limited borrowing capacity in low-income communities, loan guarantees, loan loss reserves, or energy savings warranties or insurance can all help mitigate credit risk.

Direct recipients should also be willing, and empowered by program rules and structure, to take more risk in their investment positions. Taking more risk is in part a means to diversify the products that can be offered, and therefore the investment hurdles that green banks can help dismantle. For instance, taking first loss positions. Further, low risk stakes do little to demonstrate a viable business model that will eventually attract private investors. In other words, by structuring the first-of-a-kind deal with positions that private capital providers would eventually take, direct recipient investments can help create a blueprint to scale transactions more efficiently, effectively taking on the “sweat equity” (see Question 2.3).

Finally, in allocating funds, direct recipients should demonstrate consideration of difficulties that small entities with a limited balance sheets and localized reach may face in addressing financing needs. Regional variation of transition risks will be significant, and regional diversification of risk across a portfolio may be necessary.

Overall, EPA should not need to prescribe financial products that direct recipients can or should use. What is most important is ensuring that funding recipients have the financial expertise and intent to approach product and service offerings in a way that is tailored to the context.

Section 4: Eligible Recipients

Question 4.4. How could EPA ensure the responsible implementation of the Greenhouse Gas Reduction Fund grants by new entities without a track record?

Beyond a demonstrated track record, EPA could require direct recipient applicants to demonstrate evidence of having certain structural or governance processes in place (as noted in our response to Question 2.3). For instance, direct recipients should have a board (which represents diverse perspectives and expertise including investment management, risk mitigation, organizational governance, and blended financing), risk management processes, and an investment committee function for direct investments. Direct recipients should also be able to demonstrate their connections to financial intermediaries within low-income and disadvantaged communities or present a credible implementation plan to provide direct financing to those communities.

EPA’s disbursement of funds could also be linked to direct recipients demonstrating having met certain milestones or KPIs over time. Similarly, EPA could require direct recipients to take a similar outcomes-linked approach to passing through funds to indirect recipients. For instance, direct recipients could start by extending a certain amount of low-cost line of capital that could be increased as long as indirect recipients can demonstrate drawing down the awarded capital in a way that meets certain pre-determined impact criteria. Meeting these milestones could unlock new tranches of funding as further incentive. Direct recipients should also be encouraged to use tools like revolving credit lines so funding does not need to unnecessarily sit on indirect recipients’ balance sheets if they are not ready to draw it all down.

RMI believes that the phasing-in of GHGRF disbursements could play a key role in the Fund’s success. Phased distribution of funding could enable learning and innovation over time, including the possibility of new entities coalescing in response to the opportunity. However, we recognize that many opportunities are well-understood by the US’ existing green bank network, and we support the urgent deployment of capital to meet US decarbonization goals across communities and markets. As a result, we recommend

that a phasing strategy pursued by EPA should include prioritizing the disbursement of some funds earmarked for readily fundable projects.

Conclusion

The GHGRF presents an immense opportunity to provide transformative investments to scale a just and equitable energy transition in the US. If the program is to achieve its full potential, funds must be carefully disbursed across geographic regions and sectors to expand access to traditionally underserved communities, and to help turn risks and costs associated with the transition into opportunities. To ensure additionality, financial assistance facilitated through GHGRF grants should be tailored to address the local and regional-specific barriers facing investment opportunities, especially in LMI communities, and to address the root cause of transition risks. We believe our recommendations herein can help the EPA set the GHGRF up for long-term success, including through evaluation criteria and accountability mechanisms that ensure direct recipients of GHGRF grants are positioned to develop effective, innovative, and fit-for-purpose financial products.

Thank you very much for your consideration of our input, and your attention to capitalizing on this historic opportunity to fast-track decarbonization across the US economy, inclusive of all markets and communities. Your work and attention to this topic are deeply appreciated.

Sincerely,



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Lachlan Carey
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Appendix

Table 1: Excerpt from CPUC’s Equity Framework⁷

Objective	Excerpt
Health and Safety	Climate policies and programs should improve public health and advance health interventions related to climate change by educating Disadvantaged Communities about health impacts related to climate change and providing ways to build resiliency, mitigate climate related illnesses, injury and deaths and reduce climate related healthcare costs.
Access and Education	Access and Education are key to ensuring that Disadvantaged Communities benefit from clean energy technologies, energy efficiency, and other environmental investments by 1. focusing on special outreach efforts, 2. ensuring that these interventions are applicable, and that the communities’ interests and needs are represented, and 3. communities receive culturally relevant and sensitive education to prepare for climate resilience. Training, funding and support for CBOs, rooted in disadvantaged communities is necessary for these interventions to be successful.
Financial Benefits	All investments in clean energy technologies, energy efficiency, and other environmental investments, should benefit all disadvantaged communities directly providing financial benefits, incentives and cost savings while also considering affordability and rate impacts
Economic Development	Climate policies and programs should invest in a clean energy workforce by ensuring California has a trained and ready workforce prepared to improve our infrastructure and built environment as well as bring green technologies to market by: 1. promoting and funding workforce development pathways to high-quality careers in the construction and clean energy industries, including pre-apprenticeship and other training programs, 2. Setting and tracking hiring targets for low-income, disadvantaged, and underrepresented populations (including women, re-entry, etc.) to enter these industries, 3.

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https://www.dora.state.co.us/pls/efi/efi_p2_v2_demo.show_document?p_dms_document_id=973970&p_session_id=

	<p>ensuring that these careers are high-road, with a career-ladder, family-sustaining wages and with benefits, and 4. supporting small and diverse business development and contracting</p>
<p>Consumer Protection</p>	<p>Climate related policies and programs should not create incentives for predatory lending or exploitation of communities for financial gain. Programs should have adequate consumer protection measures, disclosures, and accountability measures to ensure that financially vulnerable customers are not taken advantage of or otherwise compromised</p>