



November 28, 2022

Hon. Edward H. Chu,
Designated Federal Officer
Environmental Financial Advisory Board
U.S. Environmental Protection Agency

Hon. Kerry O'Neill,
Board Chair
Environmental Financial Advisory Board
U.S. Environmental Protection Agency

Via Electronic Mail - EPA Environmental Financial Advisory Board efab@epa.gov

RE: Greenhouse Gas Reduction Fund

Dear Mr. Chu, Ms. O'Neill, and Members of the U.S. Environmental Protection Agency's
Environmental Financial Advisory Board

On behalf of the Housing Partnership Network (HPN), I am writing to emphasize the opportunity the EPA has to ensure that decarbonizing affordable housing is a priority use for the Greenhouse Gas Reduction Fund (GGRF) and to emphasize that community development finance institutions (CDFIs) be eligible and priority recipients of funding to ensure it reaches the most vulnerable communities.

HPN, an award-winning nonprofit collaborative of 100+ of the nation's leading affordable housing and community development organizations, appreciates the opportunity to provide comments on the GGRF program design and implementation. HPN members operate in all 50 states in urban, suburban, and rural markets, oversee \$175 billion of affordable residential real estate, and reach 14 million people (about twice the population of Arizona) with housing. GGRF is a bold and crucial step to moving the U.S. to a cleaner economy and we are especially thankful that much of this funding is to be used in for the benefit of low-income and disadvantaged communities who risk being disproportionately left behind in the transition to a clean economy and whose communities—because of this program—have the chance to thrive in greener healthier environments.

General Comments

Decarbonizing America's Affordable Housing

Before providing our specific comments on the EFAB charge, HPN and our members want to draw the EPA's attention to the large scale decarbonization opportunity presented by the affordable housing sector. Thirty-nine percent (39%) of greenhouse gas emissions come from buildings, in fact if buildings were a country, they would be the sixth largest greenhouse gas emitting country in the world. In the U.S., multifamily housing has a prominent role in emissions, responsible for 13.9% of all greenhouse gas emissions (CO₂ equivalent). Significant decarbonization efforts with the buildings that house 12.5 million U.S. households could reduce CO₂ emissions by an estimated 38 million metric tons, a 41% reduction from current emission levels. The decarbonization opportunity in this sector will continue to grow, as our nation starts to address the current shortage of 7 million rental units. Efforts to begin to decarbonize the affordable residential built environment using funding from the GGRF would have a catalytic effect that would resonate in the construction, maintenance, and operations of affordable residential buildings for years to come.

Ensuring Equity, Inclusion, and Healthy Vibrant Communities

Focusing on decarbonizing affordable housing also assures a focus on low-income and disadvantaged communities. For example, approximately 50% of HPN's member properties fall into census tracts that surpass at least one threshold of the Biden-Harris administration Justice40 Initiative criteria using the beta version of the Climate and Economic Justice Screening Tool methodology. A third of HPN member properties exceed six or more category thresholds. Indeed, most of America's households earning at or below 80% of area median income (AMI) are renters in multi-family housing. Therefore, a focus on decarbonizing affordable housing buildings would ensure low-income and disadvantaged communities benefit from GGRF and help in the transition of the US to a clean economy. It is important that low-income multifamily renters do not miss out on the co-benefits of decarbonization, namely the economic and health benefits of reduced carbon monoxide, nitrogen compounds, and other indoor air pollutants that research confirms contributes to premature deaths and billions in costs each year.

Community Development Finance Infrastructure

The affordable housing sector is supported by a strong and thriving community development finance industry with a deep record of accomplishment achieving community trust. The community development finance industry also brings experience in leveraging private sector capital, estimated by the Department of Treasury to be close to a 10 to 1 ratio of private sector leverage that has

accumulated to over \$200 billion of critical investment in low income and disadvantaged communities. Long-established proven methods to attract private sector investment via Low-Income Housing Tax Credits (LIHTC) and New Markets Tax Credit (NMTC) create powerful leverage opportunities for GGRF funding.

Comments on EFAB Charge Questions:

HPN's responses to specific questions posed by EFAB below:

A. Environmental Justice / Definition of "low-income and disadvantaged communities"

- i. *What considerations should EPA take into account in defining "low-income" and/or "disadvantaged" communities in order to ensure fair access/that the funding benefits disadvantaged communities?*

HPN suggests the EPA utilize existing mechanisms and frameworks for defining low-income and disadvantaged communities. To that end, HPN suggests the EPA consider aligning with U.S. Department of Treasury definition for CDFI scope, to avoid duplication of existing efforts and to take advantage of existing targeting of resources that has proven effective. In doing so, the EPA will emphasize those living at or below 80% of Area Median Income and will be aligned with the goals of the Justice40 Initiative by confronting and addressing decades of underinvestment in disadvantaged communities. The EPA should provide flexibility and alternative means of aligning with funding opportunities to accommodate the limitations of utilizing census tracts, given that such frameworks do not adequately capture all low income and disadvantaged communities.

- ii. *How can EPA ensure that communities and organizations who have received little or no funds in the past receive priority consideration for funding? How could EPA identify the low-income and disadvantaged communities it should prioritize for greenhouse gas and other air pollution reduction investments?*

- In developing the structure and operation of the GHGR 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.

- 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.
- Failure to substantively include these community-based lenders now as this new market begins to develop in their communities, due to the seed capital of the GHGR Fund, will likely ensure that these community lenders will be at a competitive disadvantage as the green market matures— impacting their ability to access private and other capital and ultimately their ability to participate in meaningful, sustainable development— in their communities.
- A strategy to ensure that these community lenders are full participants in current and future green/sustainable development markets is to support a proposal that 40% of GHGR Fund awards go to these community service providers.
- This can occur in several ways, but an efficient strategy would be for EPA to identify a limited number of organizations as direct awardees, who will then be responsible for making indirect awards to other community lenders around the country.

iii. *What kinds of technical and/or financial assistance should GHGRF funding recipients provide to ensure that low-income and disadvantaged communities are able to be direct or indirect beneficiaries of GHGRF funding? Please identify supports that could help communities with project implementation.*

HPN recommends that to reach low-income and disadvantaged communities, a flexible blend of low-cost capital, grants and technical assistance funding can be effective. In order to maximize the investment that flows to these communities, the EPA must ensure that funds flow down to low-income and disadvantaged communities with terms that make sense in these markets. As such, the additional flow of capital will prove to be catalytic and help to transform and create markets to deliver tangible benefits to communities long overlooked. Further, this approach will allow for organizations already working and investing in these communities to use the additionality to complement investments in ways that provide decarbonization opportunities. For example, HPN and our CDFI members have provided \$64 billion in debt financing to communities for multi-family housing and community facilities (e.g., schools, health centers, community centers, etc.) largely through CDFI banks and loan funds. These products, as illustrated below, can be adapted to support

deeper energy efficiency and net zero properties with the help of low-cost capital, technical assistance, credit enhancement, and grants from the GGRF.

Examples of leveraging existing products for decarbonization:

- 1. Current Product:** Pre-development and acquisition financing

Decarbonization Modification: Pre-development and acquisition financing to support new construction or preservation of affordable housing with pricing incentives to develop to net-zero or near net-zero standards
- 2. Current Product:** Construction financing for new construction or substantial renovation.

Decarbonization Modification: Loans to support new construction or substantial renovation of affordable housing buildings with pricing incentives to develop to net-zero or near net-zero standards
- 3. Current Product:** Permanent financing for buildings

Decarbonization Modification: “Green” mortgages that provide pricing incentives for buildings that agree to meet certain net-zero or near net-zero standards and commit to ongoing improvements to lower emissions. In addition to new lending for construction or substantial rehabilitation, there is a large opportunity to take the existing housing portfolios of community-based lenders and developers to incentivize energy efficiency and clean energy upgrades through targeted grant programs. This would provide fast and direct access to reduced energy costs for hundreds of thousands of units of affordable housing through a pre-identified and trusted distribution network.
- 4. Current Product:** Recapitalization to modify and upgrade multifamily building.

Decarbonization Modification: Grants for gap funding of energy efficiency, electrification, and green improvements to multi-family buildings. For example, unsubsidized affordable multi-family housing, which traditionally operate on thin margins, are unable to carry additional debt since they must maintain affordability standards which can limit decarbonization upgrades. Grants may be appropriate in these circumstances to bridge the gap, and intermediaries, like the Housing Partnership Network, have experience in establishing programs to effectively award grant funding utilizing criteria that advance priorities such as decarbonization and racial equity.
- 5. Current Product:** Construction and Retrofits of single-family homes.

Decarbonization: Grants or loan products to assist in decarbonization of homeownership units. There are existing products to help existing or prospective homeowners improve their housing and/or improve the energy efficiency of housing. These funds could be utilized to



enhance existing product offerings as well as to ensure we are addressing decarbonization along with any other repairs. CDFI lenders also understand how to provide financing or grants to homeownership in a way that doesn't adversely encumber their property. Funding should also be available to support grants and financing for developers of homeownership, especially those that would qualify as low- to moderate-income people, emphasizing people of color, in communities designated as high-priority under the Administration's Justice40 initiative.

B. Program Efficiency

- i. *How can the GHGRF grant competition be designed so that funding is highly leveraged (i.e., each dollar of federal funding mobilizes multiple dollars of private funding)? How can the funding be used to maximize "additionality" (i.e., the extent to which funding catalyzes new projects that would not otherwise occur)? How can EPA balance the need for grants for capacity building and short-term results with financial structures that will allow capital to be recycled over time? Where (if at all) is it appropriate to impose sustainability requirements on direct or indirect beneficiaries of GHGRF funding?*

HPN recommends that the EPA take advantage of the CDFIs and affordable housing developers sectors' track record in leveraging public and private capital. The U.S. Department of Treasury has recognized that CDFIs leverage investments of 8 to 1¹ by obtaining private sector investment from banks, investment firms, and foundations. The EPA should consider existing programs that provide significant private sector investment and leverage opportunities (NMTC, LIHTC) and that GGRF funding should augment and complement those programs where possible.

For example, the EPA could leverage private sector capital by awarding entities proposing to provide low-cost subordinated debt that allows for the creation of a blended rate for the higher cost of net-zero upgrades and electrification. This leverage approach could become more sustainable and a common business practice as it is learned by traditional mortgage markets and real estate lenders, who are becoming more interested in climate risks and ESG investing.

It is also important to recognize that leverage and matching requirements can disadvantage under resourced communities, particularly communities of color. To ensure equitable access to GRRF resources, EPA should recognize that grants may be more appropriate for some projects and communities, and utilize entities like CDFIs that demonstrate overall leverage, while also creating products that are viable in underserved and under resourced communities.



- ii. *Are there programs/structures at the federal or state level that could effectively complement the GHGRF? How can EPA best leverage the GHGRF to support lasting, long-term (beyond 2024) transformation of the clean energy and climate finance ecosystem, especially for disadvantaged communities, and greenhouse gas and other air pollution reductions?*

To effectively leverage capital from other sources, the affordable housing and community development sector has a history of “braiding and stacking” complex sources of capital. This catalytic effect of crowding in multiple sources of capital will be important to maximizing and leveraging the greenhouse gas reduction impact. The EPA should anticipate and encourage the use of GGRF funding with other sources of state and local available funding and try to make this as easy as possible to add to other funding sources, see response to Section 2, Question 6 above as well.

There is also leverage opportunities to seek alignment with existing funding streams such as:

- Rebates to State Energy Offices
- HUD’s Green and Resilient Retrofit Program
- Treasury Tax Credits (particularly 25C, 25D, 45L, 179D for multi-family affordable housing sector)

II. *Program Structure*

a. *Eligible Recipients*

- i. *Who could be eligible entities and/or indirect recipients under the GHGRF? What should the threshold for deployment be – both amount and timing – for GHGRF funding by these entities? Please provide references regarding the total capital deployed by these entities into clean energy and climate projects.*

Community Development Financial Institutions (CDFIs) already meet this statutory definition of eligible recipient and should qualify to directly apply to the EPA individually or as part of a consortium. CDFIs are mission-based lenders and investors that provide financial services to individuals, organizations and businesses operating in low-income communities to support and stimulate economic development and neighborhood revitalization. CDFIs include regulated institutions such as community development banks and credit unions, and non-regulated institutions like loan and venture capital funds. CDFI Certification is a designation given by the US Treasury CDFI Fund. The Housing Partnership Network already works with its 100+ members to deliver needed funding to their communities across the United States.

With respect to section 134 of the Clean Air Act, HPN would like to emphasize the importance of eligible actors with potential to reduce greenhouse gas emissions within the built environment, specifically those that have an opportunity to improve the energy efficiency and clean air quality of

properties serving people with low-incomes and disadvantaged communities, especially those communities of color and others prioritized in the Administration’s Justice40 Initiative. Section 134 specifically mentions the prioritization of projects that replace “older less efficient units” in the use of multifamily affordable housing, with the benefits accruing to those communities being lower energy bills, healthier local environments, and cleaner air in their properties and communities.

ii. What eligible entities and/or indirect recipients would best enable funds to reach disadvantaged communities? What are their challenges and opportunities and how can EPA maximize the use of these channels?

Community development practitioners including CDFIs and non-profit affordable housing developers (both rental and for-sale owners), operators, and their related companies are well positioned to deploy at scale to an existing pipeline of greenhouse gas reduction opportunities in low-income and disadvantaged communities. CDFIs have a combined \$25B in assets and are already in place providing financial services and products to their target markets. As part of the Department of Treasury certification, CDFIs are required to provide over 60% of their affordable financial products and services to their target market, so they are already well positioned to immediately deploy and leverage the current EPA opportunity. As noted above, HPN is well positioned to deliver resources to its 108 members across the United States.

b. Eligible Projects

1. What types of projects/sectors/market segments could EPA prioritize for funding through the eligible recipients?

As a business collaborative of more than one hundred high-performing nonprofits that develop, own, manage, and finance affordable housing and community development projects, the Housing Partnership Network is keenly attuned to the potential benefits that can be realized by low-income and disadvantaged communities through direct and indirect investments in greenhouse gas emissions-reducing projects to the residential built environment. HPN members work in all 50 states, currently own more than 339,000 affordable rental units, and have significant development pipelines to meet the demand given the shortage of high-quality affordable housing. The additional reach of our CDFI members can support decarbonization projects in the commercial and single-family residential sectors of low-income and disadvantaged communities. Investing in measures that reduce GHG emissions in the residential sector, particularly in multifamily housing in low-income and disadvantaged communities, can drive disproportionate co-benefits to health,

economic inequality, comfort, quality of life improvements, and resilience in the face of extreme weather. Ensuring that the existing multi-family housing stock decarbonizes in an effective manner depends on the strategic deployment of resources in ways that are flexible enough to enable projects at key timetables in building lifecycles, such as unit-turns, during targeted retrofits, and during substantial rehab or recapitalization projects.

Buildings are long-lived structures and most of the buildings that exist today will continue to rely upon energy infrastructure throughout the time-horizon within which it is essential to decarbonize. While there are many similarities to the critical projects associated with decarbonizing the housing stock, HPN recommends that the EPA provides sufficiently flexible resources to support the geographic variability in equipment needs and the unique nature of building infrastructure that often depends on building age, size, design, and local building codes.

HPN strongly recommends that the EPA considers prioritizing GGRF resources to directly invest in both properties that serve people with low incomes as well as properties that exist in low-income and disadvantaged communities, and not to projects that may result in ancillary benefits to such communities, such as projects that reduce emissions and pollutants at power generation stations. This will dramatically increase the opportunities to serve the Administrations Justice40 Initiative and have a larger positive impact on communities of color. While HPN acknowledges that such energy infrastructure is critical to decarbonize, we feel that due to the levels of historic disinvestment in affordable housing and the commensurate investment in energy infrastructure, particularly fossil fuel-based energy infrastructure, the EPA should avoid providing general assistance to entities that do not face financing barriers and avoid providing assistance for technologies that are sufficiently supported through policy, tax, or other incentives.

ii. Considering each major project type/sector/market segment, discuss:

1. What are the barriers to private sector capital?

Private capital markets' current economics do not support the extra cost of decarbonization, particularly with the recent spike in interest rates. Given this, mortgage capital for housing, subsidized affordable housing, naturally occurring affordable and market rate housing, all need access to more funding so buildings can be decarbonized.

2. Please provide any citations to relevant case studies in low-income and disadvantaged communities, in terms of emissions reductions and other benefits, including cost effectiveness, wealth creation, economic empowerment, workforce development, etc.

An October 2021 publication from RMI titled [Decarbonizing Homes](#) outlines the health and financial benefits that accrue to households and communities as a result of decarbonizing affordable housing. Those include positive health and environmental impact that are important for improving health disparities of overburdened and underserved communities and communities of color. Decarbonizing affordable housing in the study pointed to evidence in reduced disparities in health outcomes, reduced location-based exposure to pollutants and climate risks, reduced exposure to pollutants and allergens, and reduced financial vulnerabilities faced by many households who must choose between “heating or eating.”

Decarbonizing the US economy is a process that will require the creation of over 2 million jobs, and those in decarbonizing buildings and affordable housing are inherently place-based and there is great opportunity to ensure communities benefit from those opportunities and the skill building opportunity for the transition to a clean economy.

3. What project-level gaps could the GHGRF fill for each type of project? What form could capital take to fill these gaps? Please provide references that analyze the deal-level economics for the various types of projects, including whether and how these may vary by geography.

Examples of gaps that could be filled EPA funding and action:

1. Current Product: Pre-development and acquisition financing

Decarbonization Modification: Pre-development and acquisition financing to support new construction or preservation of affordable housing with pricing incentives to develop to net-zero or near net-zero standards

2. Current Product: Construction financing for new construction or substantial renovation.

Decarbonization Modification: Loans to support new construction or substantial renovation of affordable housing buildings with pricing incentives to develop to net-zero or near net-zero standards.

3. Current Product: Permanent financing for buildings

Decarbonization Modification: “Green” mortgages that provide pricing incentives for buildings that agree to meet certain net-zero or near net-zero standards and commit to ongoing improvements to lower emissions. In addition to new lending for construction or

substantial rehabilitation, there is a large opportunity to take the existing housing portfolios of community-based lenders and developers to incentivize energy efficiency and clean energy upgrades through targeted grant programs. This would provide fast and direct access to reduced energy costs for hundreds of thousands of units of affordable housing through a pre-identified and trusted distribution network.

4. Current Product: Recapitalization to modify and upgrade multifamily building.

Decarbonization Modification: Grants for gap funding of energy efficiency, electrification, and green improvements to multi-family buildings. For example, unsubsidized affordable multi-family housing, which traditionally operate on thin margins, are unable to carry additional debt since they must maintain affordability standards which can limit decarbonization upgrades. Grants may be appropriate in these circumstances to bridge the gap, and intermediaries, like Housing Partnership Network, have experience in establishing programs to effectively award grant funding utilizing criteria that advance priorities such as decarbonization and racial equity.

5. Current Product: Construction and Retrofits of single-family homes.

Decarbonization Modification: Grants or loan products to assist in decarbonization of homeownership units. There are existing products to help existing or prospective homeowners improve their housing and/or improve the energy efficiency of housing. These funds could be utilized to enhance existing product offerings as well as to ensure we are addressing decarbonization along with any other repairs. CDFI lenders also understand how to provide financing or grants to homeownership in a way that doesn't adversely encumber their property. Funding should also be available to support grants and financing for developers of homeownership, especially those that would qualify as low- to moderate-income people, emphasizing people of color, in communities designated as high-priority under the Administration's Justice40 initiative.

4. Beyond assembling the capital stack for a deal, what other barriers and constraints exist that could constrict the pipeline of successful projects? What program strategies are needed to respond to these barriers and constraints?

- Technical assistance, capacity building, and the development of scalable technology to measure and identify investment and greenhouse gas reduction opportunities.

- Technical assistance to support affordable housing organizations and property management companies to conduct building assessments to develop energy improvement capital plans for decarbonization and energy efficiency upgrades and grants to support the acquisition and ongoing use of said technologies.
- Developing and expanding financial coaching for homeowners and building managers to improve financial performance through cost reduction.

C. Structure of Funding

a. Given the tight timeline for implementation of the funds, what are key steps that EPA could take in the short- (next 180 days), medium- (next two years before funds expire in 2024), and long-term (beyond 2024)?

KSQ #xj jhwv #w #f ul f d e r #p s o r | #h { l w q j # e d g n l q j # q i u d w u x f w u h / # j d p h c | # k h # G I I # g h w z r u n #
d g g # k h l u h { l w q j # h s x v d w r q v # q # e r p p x q l w h v # b v # h g g h w r # # e k r f h #

b. What types of requirements could EPA establish to ensure the responsible implementation and oversight of the funding?

HPN believes there are efficiencies gained by aggregating reporting requirements at the primary recipient level.

c. What mechanisms could eligible recipients adopt, including governance as well as other mechanisms, to ensure that their applications and subsequent implementation efforts ensure: (1) accountability to low-income and disadvantaged communities; (2) greenhouse gas emission reductions; and (3) the leveraging and recycling of the grants?

HPN supports the CDFI Fund’s Target Market Accountability Criteria as an appropriate accountability mechanism. HPN would also suggest flexibility to accept both project-level leverage and enterprise-level leverage (so the capital can immediately be leveraged, and the impact multiplied).

#



In conclusion, HPN recommends that the EPA prioritize GGRF funding for use by the affordable housing industry with CDFIs acting as the deployment vehicle. The decarbonization of affordable housing in the U.S. provides a unique and timely opportunity to reduce greenhouse gas emissions, reduce operational costs and utility bills of low-income people and disadvantaged communities, and contribute to healthier more vibrant living spaces and communities where people can thrive. CDFIs have a performance record of being able to effectively deploy funds and to build public private partnerships that leverage additional sources of capital and innovation. Having developed the trust, deep familiarity, and connection with low-income and disadvantaged communities, CDFIs already have the infrastructure in place to rapidly deploy funding that will accelerate decarbonization and effectuate the EPAs greenhouse gas reduction goals.

We would be happy to provide additional information on our comments. Please contact me at hughes@housingpartnership.net) or Kim Fry Fry@housingpartnership.net with any questions.

Sincerely,

Robin Hughes
President & CEO, Housing Partnership Network #

#

#