December 5, 2022

Michael Regan, Administrator
Environmental Protection Agency
1200 Pennsylvania Avenue, N.W.
Washington, DC 20460

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

Dear Administrator Regan,

The Strong, Prosperous and Resilient Communities Challenge (SPARCC) appreciates the opportunity to provide comments on the Greenhouse Gas Reduction Fund (GHGRF).

SPARCC is a national initiative created to address the structural barriers facing low-income communities and communities of color that continue to feel the effects of historical redlining, environmental and climate injustice, lack of equitable transportation infrastructure, and persistent discrimination. A key focus for SPARCC partners, who include over 100 local community organizations, community land trusts, public agencies, community foundations, and national partners is to advance effective strategies for equitable community development that integrate racial equity, climate resilience, and health outcomes for current and future residents and that build community-wealth and ownership as outlined in our Pathways to Community Prosperity. Addressing historic injustices is a priority for our initiative, with capital projects and policies being advanced in all six SPARCC regions - Atlanta, Chicago, Denver, Los Angeles, Memphis, and San Francisco Bay Area - that are centered on racial equity and supporting the leadership of people of color.

SPARCC does not intend to, nor are we eligible to apply to EPA for funding from the GHGRF. We submit these comments based on our unique combination of policy and capital work in the climate, clean energy, park equity, commercial and affordable housing space over the past 6 years. This breadth of experience positions us to provide meaningful input into this historic opportunity to bring lasting, tangible changes to communities who need it the most.

Overview

"The trust component is so critical when we're talking about bringing financing into communities. Let's just name it – the financial sector has a terrible track record in communities of color so there's huge distrust, as there should be, based on past racist practices such as predatory lending, redlining, and all the rest. So, there's a lot to overcome there and we can't downplay that. It's the work that brings together partnerships, the folks on the ground. Making sure that folks who are providing financing are listening. That they are working in partnership not jamming down solutions but co-developing solutions

that honor and respect that history but also the goals of the community. I'm not going to lie, that's hard work. That's like changing the way we do financing in this country." - Kerry O'Neil, Inclusive Prosperity Capital

EPA needs a clear, consistent definition of "low-income" and "disadvantaged" communities. There is a swath of existing tools and definitions, including the Climate and Economic Justice Screening Tool (CEJST) and the White House's Justice40 guidance definition, however these do not capture all disadvantaged communities and as a result should not be the sole resources EPA uses to determine eligibility. They should be modified to include other key climate, housing, energy, health, and socioeconomic factors/indicators.

EPA must make intentional efforts to reach groups that are both historically underrepresented and organizations with stated commitments to racial equity and long-term affordability in their missions. The administrative burden of accessing funds can sometimes outweigh the benefits or perceived benefits due to minimal staffing and staff time in these organizations. EPA and recipients making subgrants must make crucial changes to application and reporting requirements to ease the burden of applying and managing federal grants; perform meaningful technical assistance (such as application support) and outreach; offer resources for capacity building; and provide project pre-development aid.

EPA should adopt best practices for capital financing that center environmental justice. This includes leading with racial equity; acknowledging that financial support for built environment projects moves at the speed of trust; rethinking how community development financing can address the priorities of low-income communities and communities of color; and recognizing flexibility with capital spurs innovation.

EPA should take an expansive view of the definition of "avoiding greenhouse gas emissions." While traditional renewable energy installations, such as solar, are the obvious choice to avoid greenhouse gas emissions and are beneficial to all communities, other projects can avoid greenhouse gas emissions and reduce air pollution, along with other benefits. These projects include planting tree cover, installing bike lanes, energy efficiency improvements in homes, and other green building improvements. EPA should also consider the scale of its investments beyond isolated project components. Given the rare opportunity to invest in otherwise difficult-to-finance solutions at scale, EPA should prioritize more innovative interventions over low-hanging fruit that might be supported or incentivized by other programs.

EPA should direct funds to organizations that have demonstrated inclusive governance practices with responsiveness and accountability to low-income and disadvantaged communities. This includes Community Development Financial Institutions (CDFIs); community development corporations (CDCs); nonprofit investment funds; local/community foundations with close relationships with community-based organizations (CBOs); credit unions; Minority Depository Institutions (MDIs); public housing authorities; and other nonprofit and/or mission-oriented stewards of land and housing.

EPA must ensure that accountability safeguards are built in along the way to ensure that engagement with CBOs and frontline organizations do not increase co-opting of community voices for non-community and equity benefits. EPA should also define clear impact standards and metrics for awardees to drive significant GHG and air pollution reductions, as well as meaningful energy and environmental justice impacts for low-income and disadvantaged communities. Awardees should prioritize meaningful improvements to the lived experience of marginalized and disadvantaged communities through investments in GHG- and air pollution-reducing projects

Equity-focused capital exists along a spectrum and shows up in a variety of forms and practices. As a result, EPA and its recipients would be best served by focusing on their approach and making sure it fits the above criteria, rather than focusing on finding the perfect capital product to advance equity. A critical component of honing that approach involves building trusting relationships with communities. This requires humility, an openness to experimentation, and a willingness to listen.

Section 1: Low-Income and Disadvantaged Communities

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?

- While we support the use of equity tools and resources, these tools must be used with the understanding that checklists and tools used in isolation can lead to inequitable outcomes. The best tools and equity assessments are:
    - Clear in questions and criteria;
    - Clear in who/what group is being served by the questions;
    - Clear in the intention to move forward with recommendations from the assessment or ways to shift agency or organizational action to address the inequities uncovered,
    - Clear in accountability;
    - Data-driven;
    - Inclusive of lived experience and qualitative data; and
    - Should be used alongside other processes in collaboration with relevant community leadership and/or guidance that supports a better understanding of the issue (i.e. climate resilience, or providing capital for a housing development), community context and experiences.
- Where possible, we recommend that EPA use consistent definitions and metrics to those already in place at HUD and through similar programs that serve low-income communities. Specifically, HUD publishes census tract income data and measures "low income" at the household level, using less than 80 percent of area median income as the definition of a low-income household and between 80-120 percent of area median income as the definition of a moderate-income household. Similarly, existing programmatic definitions through the Low Income Housing Tax Credit program and CDFI Fund programs can be utilized to define "low income" at the community level. Aligning these definitions offers the greatest opportunity for consistency and simplicity between programs, which is especially important given the overlapping mission of GHGRF and existing programs at HUD, Treasury, and other agencies focused on low-income communities.

- We expect EPA to apply the White House's Justice40 Initiative's definition of disadvantaged communities, and urge EPA to apply the indicators included in that definition around:
    - Low income, high and/or persistent poverty
    - High unemployment and underemployment
    - Racial and ethnic residential segregation, particularly where the segregation stems from discrimination by government entities
    - Linguistic isolation
    - High housing cost burden and substandard housing
    - Distressed neighborhoods
    - High transportation cost burden and/or low transportation access
    - Disproportionate environmental stressor burden and high cumulative impacts
    - Limited water and sanitation access and affordability
    - Disproportionate impacts from climate change
    - High energy cost burden and low energy access
    - Jobs lost through the energy transition
    - Access to healthcare
- We also expect EPA to apply the Climate and Economic Justice Screening Tool (CEJST) and urge EPA to use both the CEJST and White House definition as starting points and modify them to include other key climate, energy, health, and economic factors.
- Specifically, when applicable, the added indicators should center on: (1) identified environmental justice communities; and (2) markers of environmental racism, including areas that face the following: a high pollution burden and other toxic and industrial uses; are at risk for displacement and gentrification; have significant health disparities, etc. 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. It's important to center environmental justice (EJ) in defining these communities because we must recognize the historical oppression that has created the climate crisis we see and which disproportionately impacts communities of color and low-income communities by design.
    - The CEJST is a helpful tool and has undergone review and received feedback from disadvantaged communities; however the tool does not capture all disadvantaged communities and as a result should not be the sole resource EPA uses to determine eligibility.
- However EPA decides to define these communities, it should be aligned with existing definitions to avoid confusion from applicants and incorporate local, regional, and national datasets to ensure an accurate reflection of the realities in the communities. For example, the CalEnviroScreen tool is more detailed than the CEJST - EPA may want to consider incorporating CalEnviroScreen indicators when considering where to fund projects in California.
- EPA must also consider the investments made through the GHGRF will have the ability to displace community members. Investments must be paired with anti-displacement and other tenant-protection strategies. EPA should consider the California Reinvestment Coalition's Anti-Displacement Code of Conduct.

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?

- Intentional effort is needed to reach groups that are both historically underrepresented and organizations with stated commitments to racial equity and long-term affordability in their missions. The administrative burden of accessing funds can sometimes outweigh the benefits or perceived benefits due to minimal staffing and staff time in these organizations. Actions that EPA can take to reduce the application burden include:
    - Providing explicit clarity on how long an application should take (time commitment to put it together).
    - Application support for organizations from disadvantaged communities and community-based organizations (CBOs). For example, the San Francisco Foundation often funds a grant writer consultant to help CBOs put together a grant application. If there were opportunities to provide grant writing support, including even a phone number and email address that people could contact and ask questions that include getting through to a live person and receiving a response the same day, that would help lower barriers.
    - Streamline application processes. Minimizing documentation needs, reducing multi-file-scanning, or providing outreach to groups without internet access will be necessary to reach such organizations, but critical to advancing clean energy while also prioritizing community stability. Many programs require mail-in applications only, which is difficult during a pandemic.
    - Provide funding for local program implementers for staffing and capacity.
    - Allow for greater flexibility. Many programs require that participants use an SSN and don't accept TINs, which excludes a significant population of low-income groups.
    - Provide technical assistance in the form of an application manager that can assist in organizing the application process and deliverables required in a format that is favorable to EPA. While some groups will require direct outreach, digital platforms offer an opportunity to simplify and scale communication about funding opportunities and services for underrepresented communities. An easy-to-access web portal or App could be significant in sharing information and driving engagement. EPA can also support applicants by helping identify project partners for the application or for the project after funds are awarded.
- EPA should invest in Community Action Agencies already performing DOE's Weatherization Assistance Programs and assisting with the Superfund and Brownfields programs and fund initiatives that allow these agencies to partner with EJ organizations. Funding that would foster partnerships between EJ groups and clean energy implementing groups would be valuable for the EPA to consider.
- Larger NGOs can also be a resource to smaller CBOs in providing support for federal funding, especially in linking multiple and disparate public and private funding resources. Larger NGOs can also be a bridge back to EPA for uplifting the needs of CBOs engagement with federal agencies.
- Provide more proactive outreach in notifying communities of funding opportunities. This could be in the form of newspaper ads, webinars (that offer language translation), etc. Ensure webinars are advertised well and make the recording readily available and easily accessible. This

includes offering application materials and capacity support in other languages (Spanish, Vietnamese, Chinese, etc.)

- EPA should gear technical assistance and grant funding toward the early project concept and planning phase to help organizations representing disadvantaged communities prepare for later rounds of financing. In addition, as EPA develops a trust-based relationship with CBOs through its TA work, the agency should use its resources to support credit enhancements that improve chances financing will be repaid and/or play a project advocate role as these organizations pursue other capital sources. Also, where appropriate, EPA should support CBOs in equitable partnerships with experienced private developers and public agencies that may be well-suited to lead project development work but might lack the cultural humility, a focus on equity and connection to community voices that are so critical to impact.
- Additionally, EPA staff need support, encouragement, and technical advice to pursue this type of strategy. One product would be an action-oriented toolkit that highlights positive examples of publicly funded CBO involvement and specifically describes the administrative or procurement methods that were used to make the program possible, as well as the internal staffing needed to authentically engage with CBOs. This should be complemented with a workshop or training series, targeted to EPA program staff and finance, budget, and legal staff. Also, these materials should include case studies of existing funded relationships between public agencies and CBOs, with examples of contract language, scopes of work, and similar administrative details.
- Capacity building grants: To even apply for federal grants and eventually be able to manage them, many smaller organizations need to build up their own capacity first. This could include funding for direct staff salaries and benefits, as well as for training and professional certification.
- Technical assistance and capacity building are more time-consuming and seemingly less effective when they are standardized, predetermined, or limited to group training. Many times, we have found that rolling up your sleeves and doing some pro forma work, reviewing a document, and being part of the development team can be incredibly effective for the time spent. It can also help capital staff better understand the nuanced issues at the community level.
- Capital work should happen in the light of day. Bringing organizers, residents, and "non-capital" colleagues into conversations about acquisition strategy, feasibility, and deal challenges allows for informal capacity building, unorthodox ideation, and occasional unexpected breakthroughs. It also gives capital staff an opportunity to practice using more accessible language and start to undo the gatekeeping effect of our field's reliance on technical jargon.
- We recommend that a portion of TA funds are dedicated to strengthening development teams in disadvantaged areas and that new markets be set aside for a more tailored approach so lenders, TA providers, and developers can benefit from these more nuanced needs.
- SPARCC partners have reported difficulty in receiving help in applying for federal funds both from the federal government itself and from intermediaries, such as state governments. Because intermediaries have to comply with federal requirements, they are oftentimes not helpful when providing technical assistance to potential subrecipients. Applicants need to be able to consult with knowledgeable people who can speak with authority about funding opportunities. Agency staff, especially those in regional offices, should be prepared to consult on applications and reporting requirements, building trust with community partners. Recipients who intend to grant

subgrants should also be prepared to provide useful information and advice to applicants and recipients.
- Minimize the use of complex government jargon on applications and when providing TA.

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?
- See previous question.
- Project pre-development aid, which could include energy audits and/or integrated property needs assessments; market analysis for community-based clean energy projects; project team development; siting (and securing site control); design and budgeting; entitlements; and other elements, which requires significant time, attention, and money—which SPARCC partners with promising project ideas were struggling to commit.

Section 2: Program Design

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)?

Partnering with CDFIs is one of the most effective and efficient ways that EPA can ensure GHGRF dollars are leveraged by private sector partners. CDFIs fill gaps in traditional financial markets where banks are unwilling or unable to provide financial support. Their goal is to both deliver capital to asset classes and communities that do not have access to private sector resources, as well as demonstrate to private markets that these investments are feasible, viable, impactful, and economically sound. The sector has successfully accomplished this mission for over 40 years across a number of asset classes, and embedding GHGRF within this framework can accelerate greater sustainability and resilience within all CDFI lending and investing.

Prioritizing CDFIs as core GHGRF partners will also leverage private sector capital through banks motivated to meet their Community Reinvestment Act (CRA) obligations. CRA is a 1977 anti-redlining law that motivates a substantial majority of private sector capital directed towards CDFIs and the projects and communities we serve, such as affordable housing. CRA-eligible activities must serve low- and moderate-income communities, which clearly aligns with GHGRF priorities. By embedding CDFIs as stakeholders who can directly access and deploy GHGRF resources, banks will have multiple incentives to work with CDFIs and support GHG-reducing activities in low- and moderate-income communities.

However, we also encourage the EPA to be intentional about when and how it prioritizes private-sector leverage, particularly when considering how best to meet the Biden-Harris Administration's racial equity priorities. Communities that have been the most oppressed and the least prioritized by government programs and funding are often not in a place where private sector capital can be immediately absorbed or utilized. There is trust, partnerships, infrastructure, capacity, knowledge, skills and more to be built.

This work can be time-intensive and resource-heavy, but it is necessary if the ultimate investments are to have their intended impact. We encourage EPA to consider the variety of wants, needs, and capacity across communities rather than solely how much private-sector leverage can be generated by each grant dollar.

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)?

When it comes to projects that involve real estate development and/or other large capital expenses, there is a great need for flexible and patient capital to support the earliest stages of project development. Oftentimes, smaller community-based organizations and individuals lack the funding to absorb the start-up costs associated with this phase - performing due diligence and environmental testing, paying legal fees incurred during contract negotiation, contributing earnest money deposits needed to get into contract on properties, and all of the staff time that goes along with these tasks. Many public and private funders will only consider a project after these early steps have been taken; oftentimes, lenders and public agencies will require site control and potentially architectural renderings or other design and engineering work to be completed. This effectively screens out many projects and concepts driven by those most impacted by the effects of climate change – lower-income and BIPOC communities that might lack the capital to advance their ideas past the ideation phase. Grants for site exploration and remediation, community engagement, and pre-development are one way to help ensure projects that might otherwise lack access to financing get a fair shot. At least a portion of these early-stage grants should be provided on an up-front basis, rather than via reimbursement, to ensure equity in access and avoid reinforcing the advantages of deeper-pocketed applicants.

For similar reasons, EPA should consider allowing its funds to be used as an equity contribution towards total development costs for projects that include significant GHG reduction measures. This would help undercapitalized project sponsors meet the minimum equity contributions that lenders often require, which is typically around 5-10% of the total project cost.

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?

One way to help ensure that program funds are responsibly recycled to continue ongoing operability is to target a share of resources towards nonprofit organizations, whose tax status requires any generated proceeds to remain within the organization rather than being distributed to officers or directors. In some sectors, there are additional criteria used to designate nonprofits that are deeply rooted and accountable to their communities. HUD’s Community Housing Development Organization (CHDO) designation specifies governance and organizational structure requirements that increase the participation and oversight of community members from the population being served.

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

- See answer to question 2 in section 1.
- Reporting requirements can be difficult and onerous to keep up with - EPA should consider reducing the amount of reporting for grantees from low-income communities.
- <u>Lead with Racial Equity.</u> The SPARCC initiative realized early on that it needed to strengthen its emphasis on racial equity to be effective and to be authentic partners. This brought greater energy, momentum, new ways of working, and new partners to the collaborators. A focus on racial equity has also increased the credibility of anti-racism work within the six sites and supported constructive dialogue. During the first phase of SPARCC, we came to recognize how our work as national organizations is not just about capacity building and technical solutions, but also about assessing and seeking to rectify the cultures of each of our institutions. We continued to invest in and name these evolutions, including our work to transform our organizations as anti-racist, utilizing data to understand how we've perpetuated systemic inequity and drive us toward more just practices and outcomes for the future, explicitly naming "racial equity" as an outcome goal in strategic plans and processes, providing anti-racist and anti-bias trainings, evolving our grant-making, adapting our lending practices and tools, and embedding the SPARCC frame of racial equity, health, and climate resilience into long-term work.
- <u>Financial support for built environment projects will move at the speed of trust.</u> The pace and scale of capital deployment occur on a different trajectory with authentic community engagement, which requires continued adaptation and alignment based on the realities of financial systems and community needs. Balancing equity and efficiency in the process is difficult. SPARCC disbursed over $3.9 million in SPARCC loans ($4.7 million total project costs for three transactions) to historically disinvested communities, and the result has had positive benefits. These investments have supported greater access to open space, affordable housing, and equitable transit-oriented development. Capital deployment was supported by having a local partner with capital expertise, having potential borrowers connected to the table, and developing a pipeline of projects in alignment with communities' priorities. Using SPARCC debt to finance projects at sites took longer than anticipated, partly due to difficulty in managing the feasibility of financeable projects with what communities prioritized.
- Support smaller-scale projects prioritized by communities.
- <u>Rethinking community development financing:</u> There is a growing recognition that existing community development resources, and the systems and processes that guide the flow of capital, are not adequately addressing the priorities of low-income communities and communities of color. This has been most evident through SPARCC, where the slower than expected pace of capital deployment has surfaced the tension between the aspiration for a deeply community-driven process and the limitations of CDFI-driven and other types of capital. The SPARCC sites sought to advance less traditional projects that have limited debt capacity and prioritize community ownership of land and housing to ensure long-term affordability, mitigate against displacement and increase resident agency and wealth.
- <u>Flexibility spurs innovation:</u>

    - Innovation Grants
    - Flexible capital allows communities to better create new ideas and build on their priorities.

6. What, if any, common federal grant program design features should EPA consider or avoid in order to maximize the ability of eligible recipients and/or indirect recipients to leverage and recycle Greenhouse Gas Reduction Fund grants?

- With the short timeline for GHGRF funds needing to be deployed, it will be easy for considerations for racial equity to be not fully integrated into funding decisions or completely left out. EPA must do everything in its power to counter this at every step in the process, from soliciting applications to recipient reporting requirements. EPA should consider the following:
    - <u>Onerous application and reporting requirements</u> - Federal grant applications are complex, with heavy documentation requirements that are challenging for CBOs with small staffs to manage. Additionally, requirements are often put in place at the state or local level further complicating application, awarding, reporting, and oversight processes. Multiple layers of bureaucracy, the timing of the release of funding opportunities, and structural and racial inequities in communities of color create a perfect storm of complex funding environments.
        - The U.S. Department of Energy has started to offer short-form applications for certain programs aimed at underserved communities, like the Energy Transitions Initiative Partnership Program. DOE conducts more thorough due diligence for intermediaries with higher capacity, who in turn require only brief narrative applications from subrecipients. This approach leverages the relationships of intermediaries to reduce the paperwork burden on subrecipients. EPA should consider short-form applications for both direct and indirect recipients of the $15 billion pot for low- and moderate-income communities.
    - <u>Low-interest rates, subsidized loans. and repayment flexibility</u>: In general, USDA Rural Development loan interest rates for utilities are set by reference to US Treasuries of a similar maturity at the time of borrowing (7 CFR 1738.152). Lower interest rates are available when "hardship" conditions are met (7 CFR 1714.4), and SBA offers low interest loans through its Economic Injury Disaster Loan (EIDL) program (15 USC 636(b), 13 CFR Part 123). Further, subsidized loans and repayment flexibility can be available when certain conditions are met, such as existing services do not meet certain minimum thresholds (7 CFR 1738.102).
    - <u>Start-up and regional ecosystem technical assistance:</u> Some agencies offer start-up and regional ecosystem incubation support, including the National Science Foundation, the Economic Development Agency of the Department of Commerce (EDA), and DOE.

10. 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?

- Environmental and Climate Justice (EJCJ) Block Grants: Another IRA program, the EJCJ grants may have a lot of overlap with GHGRF grants. Projects eligible for EJCJ grants, such as community-led air pollution monitoring, prevention, and remediation; mitigating climate and health risks from extreme heat and wildfires; climate resiliency and adaptation; and reducing indoor air pollution could also be eligible for GHGRF money. EPA should ensure applicants for one program are aware of the benefits of the other. For example, if an applicant for a GHGRF loan intends to use the money for air pollution prevention, EPA should encourage the applicant to apply for EJCJ funds since a grant is less burdensome than a loan, especially in low-income communities.
    - EPA should look for connections between the two programs to enhance coordination. For example, workforce development is an eligible use of funds for EJCJ grants. EPA should try to connect individuals who go through workforce development training provided by EJCJ funds to jobs created by GHGRF funding.

11. Is guidance specific to Tribal and/or territorial governments necessary to implement the program? If so, what specific issues should such guidance address?
While SPARCC focused on six metropolitan areas, we would urge EPA to institute a substantial tribal set-aside for GHGRF funds, as indigenous peoples are the best stewards of the land.

Section 3: Eligible Projects

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:

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

- EPA should take an expansive view of the definition of "avoiding greenhouse gas emissions." While traditional renewable energy installations, such as solar, are the obvious choice to avoid greenhouse gas emissions and are beneficial to all communities, other projects can avoid greenhouse gas emissions and reduce air pollution, along with other benefits. These projects include planting tree cover, installing bike lanes, energy efficiency improvements in homes, and other green building improvements. EPA should also consider the scale of its investments beyond isolated project components - for example, high-density infill affordable housing near transit can significantly reduce GHG emissions. Finally, given the rare opportunity to invest in otherwise difficult-to-finance solutions at scale, EPA should prioritize more innovative interventions over low-hanging fruit that might be supported or incentivized by other programs.

- EPA should avoid funding projects for “zero emissions technologies” and “avoiding greenhouse gas emissions” that include carbon capture and sequestration, biofuels, and nuclear for power generation.
- EPA should also consider minimizing funding for projects in low-income communities related to electric vehicles (EVs), such as charging stations, since this continues reliance on cars and EVs are not currently easily accessible to low-income communities.
- There is great potential for disadvantaged communities to share in the benefits of *supplying* clean energy. The benefits include (1) expanding the clean energy workforce to community members; (2) increasing the number of small, BIPOC-, and woman-owned businesses directly or indirectly supporting projects; (3) growing the number of lenders investing in improvements to key community-identified local infrastructure needs as part of project financing; (4) investing profits or surpluses in key community assets; (5) supporting community ownership models like community land trusts and cooperatives as they transition to clean energy; and (6) entering into carried interest or profit-sharing arrangements with partner organizations, individuals, or groups. The EPA should appropriately weigh community ownership and wealth-building strategies when designing GHGRF and incentivize consortia with partners (deep impact investors) who can equitably deliver these supply-side outcomes.
- We specifically encourage EPA to direct funding for projects that prioritizes children, the elderly, and the most vulnerable to climate change, especially low-income communities and communities of color. Potential activities that GHGRF could fund to benefit these communities are:
    - Building new construction or retrofitting existing facilities, especially affordable housing, to resilient and energy efficient standards, including through:
        - Installing solar panels and other zero-emission technologies including energy storage;
        - Incorporating green roofs, shade structures, natural ventilation, and other resilient design features that reduce reliance on GHG-emitting appliances;
        - Subsidizing the cost of purchasing energy-efficient appliances (heat pumps, refrigerators, air conditioning, air purifiers, etc.) that limit GHG emissions and improve health in facilities;
        - Expanding the tree canopy and natural materials in outdoor spaces to reduce the production of GHG emissions, sequester carbon dioxide, and reduce air pollution;
        - Building or financing social programs that are co-located with other amenities, like housing or places of employment, that reduce commuting patterns and limit emissions from transportation;
        - Technical assistance and capacity building to conduct a needs assessment related to current GHG emissions, develop a GHG reduction strategy, understand the impact that GHG emissions and other air pollutants can have, access additional funding streams and resources for resilience and sustainability, and more.
    - Transit-oriented development projects, such as:

        - Bike lanes and bike-share rental systems;
        - Enhanced pedestrian crossings and connectivity;
        - Affordable housing near existing transit infrastructure;
        - Streetscape improvements
    - Projects to reduce air pollution, such as:
        - Community air monitoring;
        - Air pollution monitors;
        - Woodsmoke reduction;
        - Fire prevention;
        - Urban and community forestry projects;
        - Fleet electrification
    - [Programs](#) eligible under California's Greenhouse Gas Reduction Fund.
    - Technical assistance and capacity building: TA itself should be considered a qualified project since the statute allows funds to be used to "assist communities in reducing or avoiding GHG emissions and other forms of air pollution." To receive funds and fully realize program goals, recipients in LMI communities need assistance and added capacity to manage funds.
    - In addition to reducing GHG emissions and positively supporting public health, most if not all these activities will also save providers money through reduced energy and utility costs, which helps promote sustainable business models.
- EXAMPLE: With the use of technical assistance and SPARCC flexible grant funds, Chicago-based community group Latinos Progresando incorporated a heat pump HVAC system, improved air quality, improved roof insulation, and enhanced window glazing into their new office building design. These mechanical and design improvements allow the building to be all electric, reducing natural gas infrastructure in the immediate term and allowing for greater emission reduction as the grid is increasingly supplied by renewables. The combined impact of these upgrades is equivalent to the energy savings from planting 1729 tree seedlings grown for 10 years or taking almost 23 cars off the road, as well as nearly $20,000 over the lifetime of the appliances.

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.

- SPARCC's $6 million capital grant was a key resource to use and demonstrate capital as a critical tool for achieving the systems change objectives of the individual SPARCC sites and the national initiative. Capital grants were generally prioritized for projects that were eligible or likely to become eligible for debt and were used to achieve built environment outcomes by partnering with sites and complementing local capacity. The capital grants were one of three initial philanthropic capital sources, along with Program Related Investments (PRI), and partial guarantees, SPARCC has secured that will facilitate investment in opportunities that cannot otherwise attract sufficient capital. Of these resources, the capital grant offers the greatest flexibility, leveragability, and opportunity for impact. SPARCC therefore sought to direct the capital grants to fund the most innovative and impactful investment opportunities in ways that can have lasting and scalable effects on the regions, but also the field as a whole.

- SPARCC found that catalytic capital was generally needed earlier in the process than expected—rather than needing flexible capital to fill gaps in the capitalizations of fully-conceived projects, projects needed both partnership from SPARCC staff to help understand and develop project goals and capital to fund pre-development to allow projects to progress to a stage at which they were eligible for project-level debt and equity. This project pre-development, which includes market analysis, project team development, siting (and securing site control), design and budgeting, entitlements, and other elements, requires significant time, attention, and money—which partners with promising project ideas were struggling to commit. While the majority of SPARCC's $70 million capital pool was not designed to provide this type of capital, the $6 million capital grant portion was, and SPARCC deployed it successfully into a wide array of projects.
- Within the realm of grant capital, SPARCC also saw some success with providing recoverable grants, which are capital grants that are issued with an expectation of complete or partial repayment assuming certain milestones are reached. These serve a similar function as forgivable loans, but provide additional flexibility and less risk to the borrower since they are not typically legally enforceable or considered liabilities for accounting purposes. Structuring grants in this way creates the possibility of recycling resources to subsequent projects while maintaining the intended impact and flexibility of grant funding. In this context, EPA could grant funds to an intermediary - such as a CDFI, foundation, or other nonprofit entity - who would then subgrant dollars out as recoverable grants. The intermediary would work with subgrantees and handle requests for complete or partial forgiveness, which typically occurs when a project doesn't move forward or if other evidenced factors prevent repayment, such as a significant increase in development costs.

3. Beyond financial assistance for project financing what other supports – such as technical assistance -- are necessary to accelerate deployment of such projects?

- Beyond the theme of early-stage financing support, we identified seven features that capital users cited as most helpful to them in capital products:
    - *Patience*: Capital products should have long terms or be structured without hard maturity dates, to allow practitioners time and flexibility to learn and work through problems.
    - *Flexible Underwriting Approaches:* Because equity-focused practitioners often create highly innovative project plans, capital providers cannot be beholden to underwriting approaches that are too rigid.
    - *First Loss*: Capital users need first-loss capital that can catalyze other capital sources more than senior debt capital.
    - *Non-Dilutive:* Capital users are looking for repayment structures on equity-like products that do not involve giving up significant common equity ownership of projects.
    - *Delivered Through Broader Supportive Relationships*: Capital should be provided as part of a broader relationship that supports the capital user through mentorship, training,

    connections, and other supports. These supports both advance the capital user's mission and de-risk the capital provider's investment by increasing the chances that a project succeeds.
  - *Entity-Level*: There is a need for capital that can help practitioners support and grow their own companies or organizations, outside of the project-level structure; capital providers should seek to develop ways to provide this capital.
  - *Balance Sheet Support*: Practitioners would benefit from capital providers who are willing to sign loan carve-out guarantees and/or put up their own balance sheets to help meet net worth and liquidity requirements.
- Capacity building: Invest in capacity-building for the "ecosystem" of community-based lenders, project developers and installers, and "helper" organizations, such as local community groups or housing nonprofits, providing technical assistance and/or facilitating the work of others.
- Community focus: Encourage community-based, bottom-up solutions and the development of effective local systems to address climate change while connecting communities to financing products available through a broad network of green banks and community lenders.

Section 4: Eligible Recipients

1. Who could be eligible entities and/or indirect recipients under the Greenhouse Gas Reduction Fund consistent with statutory requirements specified in section 134 of the Clean Air Act? Please provide a description of these types of entities and references regarding the total capital deployed by such entities into greenhouse gas and air pollution reducing projects.

- See question 2 below.

2. What types of entities (as eligible recipients and/or indirect recipients) could enable Greenhouse Gas Reduction Fund grants to support investment and deployment of greenhouse gas and air pollution reducing projects in low-income and disadvantaged communities?

- SPARCC recommends against allocating all of the funds or a substantial portion of the funds to a single entity. This would be contradictory to EPA's goals of directing funds to LMI communities.
- Community Development Financial Institutions (CDFIs): See Section 2, Question 1.
  - SPARCC partners have reported positive exchanges/relationships with CDFIs, especially when it comes to technical assistance. CDFIs have experience (1) adhering to federal regulations; (2) funding projects needed in low-and moderate-income communities; (3) forming working partnerships with CBOs, which will make applying for GHGRF subgrants easier and faster.
- Community Development Corporations (CDCs) and Community development banks: CDCs and community development banks make good candidates for deploying GHGRF funds for the same reasons CDFIs do.
- Nonprofit investment funds: They are designed to deploy capital to community-based programs and initiatives. In the green finance context, these funds work with communities most impacted by climate change to invest in clean energy and resilience projects.

- Foundations, ideally local/community foundations that have close relationships with community-based organizations within a geographically targeted area.
- Credit Unions: Credit unions are member-owned, non-profit depository institutions that provide financial services to communities and businesses in underserved markets, including promoting savings, affordable loans, and other services.
- Minority Depository Institutions (MDIs): MDIs serve communities that are primarily people of color; they are a good option for channeling funds through existing networks to reach LMI communities.
- Other nonprofit and/or mission-oriented stewards of land and housing, such as Community Land Trusts, Limited Equity Housing Cooperatives, Permanent Real Estate Cooperatives, and Mixed Income Neighborhood Trusts.
- Public housing authorities and housing finance agencies
- SPARCC has developed the following guiding principles for capital providers. EPA should consider eligible applicants who have demonstrated the following:
    - <u>Clear Equity Focus Throughout Organization:</u> Successful capital providers know why they are investing and lending to support equity-focused real estate. They also typically have a more narrow focus (geographically or thematically) to help them concentrate their efforts and know their market well.
    - <u>Center Building & Maintaining Borrower Trust:</u> Capital providers use several strategies and practices to build and maintain trust with borrowers and communities: this is key because early-stage capital providers need to know and trust their investees and borrowers, and because communities of color have a trust deficit with capital providers of all types that needs to be repaired.
    - <u>Capital is Part of a Broader Relationship:</u> The capital providers we worked with think of capital as just one element of their strategy and how they achieve their mission and find ways to support their borrowers and investees beyond funding.
    - <u>Form Follows Function in Product Design</u>: The capital providers we spoke to represent a very broad array of different capital products. However, while they lend and invest very differently, they all had a clear explanation and rationale for why their specific approach is the best approach for their own community and market.
    - <u>Ability to Iterate and Think Long Term</u>: Many of the capital providers we spoke to had made material changes and course corrections to their products.
- Equity-focused capital exists along a spectrum and shows up in a variety of forms and practices. As a result, EPA and its recipients would be best served by focusing on their approach and making sure it fits the five above criteria, rather than focusing on finding the perfect capital product to advance equity. A critical component of honing that approach involves building trusting relationships with communities. This requires humility, an openness to experimentation, and a willingness to listen.

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

- See Section 3, Question 3.

5. What kinds of technical and/or financial assistance could Greenhouse Gas Reduction Fund grants facilitate to maximize investment in and deployment of greenhouse gas and air pollution reducing projects by existing and/or new eligible recipients and/or indirect recipients?

In addition to the kinds of technical assistance that will help hopeful applicants put together compliant and competitive applications, GHGRF funds should be made available to skilled experts in the implementation of GHG- and air pollution-reducing solutions. While generalist knowledge may be useful for those providing application assistance or playing more of a coordination and convening role, there is a great need for free or reduced-cost services that are specific to the technical fields that GHG and air pollution reduction encompasses. This could include firms and individuals with experience in areas as diverse as active transportation planning to building decarbonization and electrification.

Most importantly, however, the kinds of TA being provided should be informed by the needs and priorities of the communities where investments will be made. From cold-weather cities with aging buildings and infrastructure to rural areas on the fringes of exurban sprawl, GHG and air pollution reduction interventions will look dramatically different across the country. Through SPARCC, we often had to spend significant time getting to know community organizations and the kinds of projects they were working on before bringing in technical experts. For a project in Chicago that involved the rehabilitation and conversion of an abandoned library into nonprofit office space and a community health hub, technical assistance focused on weatherization and energy-saving measures was identified as a need only after initial site control and property inspections were undertaken and once the project sponsor had a better sense of their capital stack. Had we decided on TA offerings prior to engaging projects, more than likely we would have seen a mismatch between what we could provide and what communities were looking for. Ideally, EPA would start to learn about the kinds of projects and investments that communities are likely to seek funding and support for before fully rolling out a project-based technical assistance program. That would give the agency staff time to incorporate feedback on priority areas before finalizing any Requests for Proposal aimed at TA providers.

Section 5: Oversight and Reporting

1. What types of governance structures, reporting requirements and audit requirements (consistent with applicable federal regulations) should EPA consider requiring of direct and indirect recipients of Greenhouse Gas Reduction Fund grants to ensure the responsible implementation and oversight of grantee/subrecipient operations and financial assistance activities?

- Accountability safeguards for recipients making subgrants must be built in along the way to ensure that engagement with CBOs and frontline organizations does not increase co-opting of community voices for non-community and equity benefits.

2. Are there any compliance requirements in addition to those provided for in Federal statutes or regulations (e.g., requirements related to administering federal grant funds) that EPA should *consider when designing the program?*

- We would caution against adding extra compliance requirements, as federal compliance requirements are already difficult for CBOs to comply with. Adding additional requirements may discourage organizations serving low-income communities from applying for funds.

3. What metrics and indicators should EPA use to track relevant program outcomes including, but not limited to, (a) reductions in greenhouse gas emissions or air pollution, (b) allocation of benefits to low-income and disadvantaged communities, (c) private sector leverage and project additionality, (d) number of greenhouse gas and air pollution reduction projects funded and (f) distribution of projects at the national, regional, state and local levels?

- EPA should define clear impact standards and metrics for awardees to drive significant GHG and air pollution reductions, as well as meaningful energy and environmental justice impacts for low-income and disadvantaged communities. Awardees should prioritize meaningful improvements to the lived experience of marginalized and disadvantaged communities through investments in GHG- and air-pollution-reducing projects (e.g. % reduction in energy burden and utility shut-offs; health co-benefits, employment outcomes; projects with clear ties to community ownership; etc.).

4. What should EPA consider in the design of the program to ensure community accountability for projects funded directly or indirectly by the Greenhouse Gas Reduction Fund? What if any existing governance structures, assessment criteria (e.g., the Community Development Financial Institutions Fund's Target Market Accountability criteria), rules, etc., should EPA consider?

Three years into SPARCC, we sought a deeper approach to measuring change and impact in the communities we worked with. We partnered with Equity & Results, a national expert in anti-racist results-based, systems change to support a process with SPARCCC's national partners and local community partners across six regions to create a shared impact framework. Equity & Results has seven principles of using community-centered, racial equity principles as the foundation for results-focused work:

1. Organizational staff (in this case EPA and recipient staff) and community members are mutually responsible for identifying, collecting, and using data in a participatory, respectful process.
2. Transform the usual punitive data culture to transparent, non-punitive culture around data analysis and use.
3. Hold a practice that doesn't "prove" or blame communities for institutional and systems failures.
4. Share data with the community regardless of outcome.
5. Use data consistently to inform practice to improve strategy and prevent harm.
6. Identify potential solutions with an eye to root cause so that they will be more likely to disrupt and shift racially disproportionate outcomes.
7. Foster authentic, trusting relationships so that when data goes in a scary direction, we will seek solutions together rather than blame each other. *(This involves considering how current policies and ways of doing work maintain or reinforce structural/institutional racism.)*

EPA should also award applicants that can credibly demonstrate both (1) inclusive governance practices with responsiveness and accountability to low-income and disadvantaged communities and (2) best practices of nonprofit and financial governance for mission-based entities. Other federal programs, such as those run by US Department of Treasury's CDFI Fund or the U.S. Department of Health and Human Services Federally Qualified Health Centers, may serve as good examples for EPA to consider when deciding on GHGRF governance parameters. At minimum, consideration should be given to board and leadership representation, board charters, investment/credit policies, as well as organizational policies such as conflicts of interest standards, procurement policies, and document retention. In addition, applicants with a demonstrated track record of effectively stewarding federal and/or state funds for the benefit of low-income and disadvantaged communities and households through other programs (e.g., Paycheck Protection Program, CDFI Fund, utility ratepayer funds, etc.) should be scored highly.

Any GHGRF awardee should demonstrate a proven track record and commitment to working alongside low-income and disadvantaged communities, as well as environmental and energy justice organizations. This may include community representation at the board and leadership levels; explicit partnerships with environmental or energy justice organizations to inform business models; and committed and funded community engagement planning designed to identify community priorities. EPA could also require a certain percentage of projects funded to include a community ownership mechanism. Ultimately EPA should look across any awardee's governance, operations, and investment process to ensure accountability to disadvantaged communities.

Section 6: General Comments

1. Do you have any other comments on the implementation of the Greenhouse Gas Reduction Fund?

We have created the SPARCC capital screen, a tool designed to push ourselves to be innovative and discover new ways to promote equity through the projects we fund, both in process and outcome. The SPARCC partners, funders, and representatives from the six sites collaborated to develop this tool so that SPARCC capital can be intentionally aligned with a site's objectives and outcomes. We will be the first to say that the screen is a beginning step and plan to evolve it as we learn and apply it to projects. But it's a start, and we hope that it contributes as an approach in better tying investments to community impact.

When a SPARCC site sought financing for a proposed project, like affordable housing, green infrastructure, or a healthy food store, they submit their responses to the Capital Project Screen Survey as part of the underwriting process. SPARCC assessed the survey responses against 12 criteria in the capital screen. In developing their survey responses, the sites have full access to the screen and a resource guide that explains the thinking behind the 12 criteria and the scoring system. The scores for the survey response can range from 0-34 points and attempt to identify a few important items:

- How the project supports the vision of the SPARCC site team. Each of the six SPARCC sites has a vision that will help transform their region. The proposed project should be strategic and advance the larger mission. Our goal is to use capital as a tool in service to a larger strategy, not just an investment opportunity. For example, if the region's vision is to end displacement, we'd look for how the proposed project prevents displacement and does not unintentionally exacerbate the issue;
- Integration of outcomes. How does the project integrate and advance SPARCC's three lenses – racial equity, health, and resiliency/sustainability? A series of questions call out each of these elements and asks how the project will address them. For example, one question asks how a project will improve certain elements of the social determinants of health;
- Community ownership and support. The screen asks how residents and the community have informed the project's conception and design and how they will be involved going forward, particularly those groups that have been under-represented in the past; and
- System Change. One of our main goals is to align investments to impact by funding transformative, integrated projects that produce social benefits and are credit-worthy for traditional lenders and investors.

These are big, complex ideas that we've condensed into 12 criteria in the SPARCC capital screen. We recognize some inherent challenges with such a holistic, comprehensive approach. First, real estate projects that provide social benefits (i.e. lower rents) usually have very tight budgets and already involve public sector subsidies. We understand tight economics and the existing positive impact of those projects. Therefore, we don't want the screen to be used to prescriptively add features that make the projects unfeasible. We hope the screen is an opportunity for EPA to take a step back and identify how they can deliver the best, most integrated process and results possible. For example, the site could explore cost-effective strategies to promote active spaces in a project that also promotes resident health. Second, we also know that real estate projects take planning and that many of the projects in the current pipelines of the SPARCC places have been in development for years. We hope to open discussions about planned projects now by asking the questions on the screen, while also helping to seed ideas for the next round of projects that can be conceptualized and resourced in more integrated, inclusive ways.

Thank you for considering these comments. We look forward to working with EPA on ensuring increased participation, ownership, funding, and technical assistance to community-based organizations, especially those serving BIPOC, rural and low-income communities. For more information or to reach out with any questions, please contact Mikyla Reta at mreta@nrdc.org.

Signed,
Strong, Prosperous, and Resilient Communities Challenge (SPARCC)