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Comments to the Environmental Protection Agency on the Greenhouse Gas Reduction Fund

The Greenhouse Gas Reduction Fund (GHGRF) provides $27 billion in total to the Environmental Protection Agency (EPA) through September 30, 2024. The total funding is split as follows: a) $7 billion in grants to states, municipalities, tribal governments, and eligible entities to make grants, loans, and provide technical assistance for the purpose of deploying or benefiting from zero emissions technology; b) $11.97 billion to make grants to eligible recipients who could provide financial and technical assistance; and c) $8 billion to eligible recipients for the purpose of providing financial assistance and technical assistance in low income and disadvantaged communities.

Summary. The best way to achieve the goals of the GHGRF tranches is to use disbursements to construct a network of public and non-profit "green banks." In particular, EPA should ensure that the vast majority of GHGRF disbursements benefit a national green bank, state green banks, and nonprofit green banks—each with linkages to one another and with a diverse network of project stakeholders and partnering investors.

Green banks offer the potential to create a new lending ecosystem for climate investments through network-derived scale, leveraging of public dollars and donations into private investment, the creation of standardized and safer green assets, and the recycling of capitalization into new projects. As such, EPA should create a screening criteria to ensure applicants will meet the attributes of a green bank. Furthermore, EPA should ensure that disbursements can benefit a diverse range of organizational models, decarbonization mandates, institutional arrangements, investment strategies, and financial tools utilized by applicants meeting the screening criteria.

Comments. The Center for Public Enterprise (CPE) has the following specific comments on how the EPA can administer the GHGRF with the goal of creating a network of public and nonprofit green banks.

1. For the $7 billion tranche of funds for government entities, the EPA should only provide funds to eligible recipients or state, municipal, or tribal governments if the applicant[1] demonstrates that it: 1) is an existing green bank or one in the process of being set up; and/or 2) intends to use GHGRF money in order to finance decarbonization efforts in a manner similar to those

[1] These comments shall refer to (potential) awardees of GHGRF money as "applicants," "grant recipients," or "green banks." When referred to as the latter, CPE presumes they meet the attributes of the proposed screening criteria.

used by green banks (see below for more detail).[2] It would be preferable for all or the vast majority of GHGRF disbursements to go to entities meeting this applicant screening criteria.[3] This applicant screening criteria does not conflict with the prescribed use of funds in the three GHGRF tranches.

a. Green banks have six major attributes which can help ensure the maximum impact of funds appropriated by Congress for the purpose of reducing greenhouse gas emissions. **The EPA should develop an application process that screens applicants to ensure they meet these criteria.**

    i. First, they recycle their initial and subsequent capitalization or capital base using a variety of financial approaches (securitized lending, equity stakes, aggregation and warehousing of green assets, loan guarantees, interest subsidies, co-lending and others) in order to facilitate the initial financing and launch of projects and firms aimed at decarbonizing the economy and then to recycle their original stake as well as resulting cash flows for further investment in subsequent projects.

    ii. Second, they use capitalized funds to directly or indirectly leverage additional private investment aimed at decarbonizing the economy both through the "crowding in" of additional investment in similar projects and through the creation of standardized, marketable assets that can attract a wider array of private investors.

    iii. Third, green banks coordinate disparate actors— potential customers, firms, developers, communities, and other key stakeholders—in order to increase the effectiveness of investments, facilitate increased investment in a given priority, and/or de-risk a variety of green assets.

    iv. Fourth, green banks can use that coordination to ensure the maximum success of coordination efforts at various levels of government, other investment policies such as the Inflation Reduction Act's tax credits, or other "all of government" approaches to pursue the shared aim of decarbonization.[4]

[2] For the purposes of these comments, "green banks" need not be financial institutions necessarily. They could also be government agencies that carry out the functions listed in Comment 1a or consortia that include other actors (public and private) alongside financial institutions).

[3] It is CPE's understanding that without the proposed screening criteria in this document, applicants that do not qualify as green banks might become eligible for GHGRF money. CPE proposes the screening criteria so as to ensure particular applicants, referred to throughout the document as green banks, are the primary recipients of GHGRF money.

[4] Green banks need not involve themselves with other coordination and industry efforts. But some may choose to and should not be disadvantaged in the GHGRF disbursement process as a result.

v. Fifth, green banks have higher tolerance for investment risk than private financial institutions such that they purposefully take on riskier portfolios.

vi. Sixth, green banks can explicitly target investments towards environmental justice, low-income, and other disadvantaged communities in line with the aims of the GHGRF as well as with the Biden-Harris Administration's *Justice40 Initiative.*

2. CPE recommends the applicant screening criteria above because green bank applicants can most effectively make use of the limited GHGRF funds. Money disbursed rapidly to applicants that do not meet the green bank screening criteria above will not be able to: a) scale the benefits of disparate investments into large-scale emissions, air quality, or community benefits; b) recycle funds to repeated projects using financial tools; c) leverage private investment to increase the dollar-for-dollar impact of the GHGRF appropriation; d) ensure that disparate decarbonization projects augment the effectiveness of various state and federal policy efforts–particularly those of the Inflation Reduction Act. Disbursing the GHGRF as one-time grants or to applicants that do not meet the proposed green bank screening criteria will also mean that future appropriations to the GHGRF (or to other similar funds) after 2024 will have to begin pursuing their aims effectively from scratch, with a limited ability to track best practices and previous investment results.

3. EPA can maximize the impact of the GHGRF dollars by coordinating its investments to create a network of green banks at the state level, anchored by a national institution. A national institution can use its balance sheet to both issue direct loans and more importantly to purchase, re-package, standardize, and sell loans from local lenders. This securitization function will allow it to be a central player that creates a public-private market for green financing in a way which small lenders acting alone cannot. **As such, we recommend that the majority of the GHGRF funds be divided between a national, coordinating green bank, state-level green banks, and other nonprofit green banks. The national institution is vital in this arrangement in order to facilitate the leveraging of private investment at the national scale. State banks included among grant recipients should aim to be part of a network of associated institutions.** This respects the intent of Congress to create a new form of climate finance through the establishment of original, public and semi-public financial actors.

4. A recipient of GHGRF money should be allowed to receive funds from multiple tranches of the total GHGRF appropriation. Furthermore, an applicant's proposed use of GHGRF funds should not be prevented from qualifying under multiple tranches of GHGRF funding. Applicants proposing uses of GHGRF funds that meet the objectives of multiple tranches should not be prejudiced relative to applicants applying under a particular tranche.

5. EPA should limit the extent to which disbursed funds are scattered across multiple recipients. Concentration of capitalization in one national green bank as well as a network of various state and local green banks offers the best opportunity to pursue large-scale decarbonization projects. Larger capitalization of this network will ensure that the banks have maximum flexibility to pursue the objectives of the various GHGRF tranches via the major attributes of green banks.

6. EPA's application process should not prejudice against particular organizational models, organizational mandates (so long as their primary aims are in line with the objectives of the Inflation Reduction Act), or investment strategies used by eligible entities, state, municipal, or tribal governments that carry out green banking activities. Nor should receipt of GHGRF funds require the establishment of particular veto points that would hinder the bank's core operations as a green bank. In their applications, applicants should instead demonstrate how they intend to meet the objectives of GHGRF disbursals through their strategies for provisioning financial and technical assistance.

    a. Furthermore, the EPA should not prejudice applications that devote significant funds for the establishment of in-house staff capabilities, building of internal technical expertise on areas of potential activity, or for the establishment of relationships with other green financing initiatives.

    b. The EPA should not prejudice disbursement decisions against existing or potential green bank applicants that seek to establish coordinated investment strategy efforts with federal, state, local, tribal governments, other community and nonprofit entities, business, public utility districts, labor, consumers, or other sectoral representatives.[5]

7. The EPA should enable the widest possible range of financial tools by recipients of GHGRF money. These include, but are not limited to: equity, co-investment with private partners, loans, debt-for-equity swaps, securitized lending, interest or financing subsidies, revolving loan funds, and the use of particular conditions on financial and technical assistance (such as as the recipient of assistance joining a power purchase agreement supplied by another recipient of financial and technical assistance).

[5] This list of entities should not be considered exhaustive.