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EPA green grant program attracts widespread interest

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With billions of dollars on the line, local financial institutions are joining forces to improve their chances of earning a share of an EPA grant program that's designed to boost green investment — particularly in low-income communities.

The program, known as the Greenhouse Gas Reduction Fund, has been in the works for more than a decade. But it finally became a reality when congressional Democrats directed $27 billion to the effort as part of the Inflation Reduction Act.

Now, with EPA preparing to release final program details and open up the application process, hundreds of local financial institutions across the country are trying to figure out the best way to access the historic level of funding.

How the program is structured, who is awarded the dollars and how they use the money will go a long way toward determining the ultimate success of the initiative, which an estimate by McKinsey & Co. says could amount to at least $250 billion in climate-related investment.

"The potential that this program has is really hard to understate," said Adam Kent, a senior adviser at the Natural Resources Defense Council's Green Finance Center.

The challenge moving forward, he added, is figuring out how to pull together the best possible applications to maximize the "dollars that will ultimately live on for generations."

The Greenhouse Gas Reduction Fund has roots in the late 2000s, when climate hawks first started mulling the idea of implementing a single national green bank that would leverage public dollars to mobilize private investments in clean energy and climate adaptation.

The concept, both in name and substance, has shifted multiple times over the years. The biggest distinction between the original idea and the fund enshrined in the Inflation Reduction Act is that the legislation moved away from the singular green bank model, and instead will tap multiple national nonprofits to do the job.

The high level goal, however, remains the same: to pump federal dollars directly into green projects — as well as a sprawling network of local lenders that are well positioned to finance climate-related work, but may need a boost to make it happen.

If executed carefully, EPA has the potential to multiply by 12 times the original public investment over the next decade, according to the McKinsey analysis.

The researchers looked at a $20 billion chunk of the program, and said it could "kick-start critical system wide change" by pouring capital into communities that have historically lacked access to public and private investment — and are most impacted by climate change.

If the fund successfully accelerates the financing of projects ranging from community solar and residential heat pumps to EV chargers, the researchers argued it could create a whopping 380,000 jobs and generate $30 billion in cost savings for residents, while also boosting air quality and driving down emissions.

"This is a once-in-a-lifetime opportunity to accelerate clean energy finance," said Toby Rittner, CEO of the Council of Development Finance Agencies a trade association planning to apply for funding.

"So communities that had not really thought about this potential investment in the past are really taking a look at it and thinking this might be an opportunity for them to make some serious transitions in this space," Rittner added.

Program structure

So how would it work?

After soliciting public input last year, EPA in April released a Greenhouse Gas Reduction Fund implementation framework that made clear the $27 billion would be split into three separate grant competitions.

The first is a $7 billion low-income solar grant competition that will award up to 60 grants to states, territories, tribes, cities and nonprofits to expand solar power in disadvantaged communities. In late June, EPA issued the program's Notice of Funding Opportunity (NOFO), which provided additional details and set a September deadline for applications.

The other two competitions are broader in scope — and have yet to be opened. EPA said recently it would release the remaining two NOFOs in the "coming weeks" but did not share a more specific time frame.

The first competition is a $14 billion program meant to expand the deployment of clean energy technologies on a national scale. Dubbed the National Clean Investment Fund, the effort would fund two or three national nonprofits capable of partnering with "private capital providers" in large part to finance major clean energy or decarbonization projects — a feat that would be more difficult for a smaller organization.

The second competition is a $6 billion fund aimed at helping community-facing and mission-driven lenders begin offering climate finance — or grow their existing climate-related work. The so-called Clean Communities Investment Accelerator (CCIA) would do so by awarding grants to between two and seven hub organizations, who would then distribute that money out to hundreds of member lenders.

Notably, both competitions are expected to deliver at least 40 percent of program benefits to disadvantaged communities — fulfilling President Joe Biden's Justice40 Initiative. The entirety of the CCIA, meanwhile, is meant to target low-income and disadvantaged communities.

Groups lining up

Financial institutions including green banks, credit unions, Community Development Financial Institutions (CDFIs) and development finance agencies are waiting for the final NOFOs — which will contain more detail than the implementation framework — before deciding how they will try to access the funds.

Some groups, for instance, are still mulling which competitions to apply for and whether they should team up with other organizations to boost their chances of receiving a grant.

But a range of umbrella coalitions already have publicly announced they would apply. While some have been around for years, others formed more recently for the main purpose of accessing Inflation Reduction Act dollars.

"People are definitely collaborating intensively and working together, having lots of conversations around partnerships,"said Eric Hangen, who serves as principal of consulting firm I Squared Community Development Consulting LLC.

The program has "captured everybody's attention. I don't think there are many community-based or mission-driven lenders out there who aren't talking about this," he added.

Among them is a new coalition called the Community Builders of Color Coalition, which is mulling applications to all three grant competitions through a new initiative called the Climate Justice Fund. The coalition is made up of 19 financial institutions and advocacy organizations, led largely by people of color. Their main goal: to ensure low income communities benefit equitably from the EPA program.

"Our financial system does not really direct capital to low-income communities and communities of color. And often, whenever there are financial resources available, those who ... historically have been able to access it are able to access it again very quickly," said Neda Arabshahi of Inslusiv, a CDFI intermediary and member of the broader coalition.

The Climate Justice Fund was born out of the realization that there needs to be a "concerted, focused effort" to ensure that doesn't happen with the Greenhouse Gas Reduction Fund, Arabshahi added.

Another new player is Climate United, a coalition made up of three financial organizations — Calvert Impact, the Community Preservation Corp. and Self-Help Federal Credit Union — that plans to apply to the $14 billion program.

Beth Bafford, a vice president at Calvert, said the group is a strong candidate because its three members have a long history of working with communities “that were not getting access to capital and [figuring] out the right ways to structure funds so they work for communities and families and the markets.”

Two other organizations that long predate the program — but also hope to get in on the funds — are the Coalition for Green Capital and the Council of Development Finance Agencies.

The Coalition for Green Capital, a consortium of state and local green banks, has championed the national green bank idea since 2009. Reed Hundt, CGC’s CEO, said in an interview that while the group needs to see the NOFOs before solidifying its strategy, it plans to apply for both the $14 billion and $6 billion buckets of funding and hopes to team up with other groups to strengthen its application.

The Council of Development Finance Agencies, meanwhile, which represents development finance agencies around the country, only plans to apply for the smaller funding competition. That’s the case because its member organizations in most cases wouldn’t have the capacity to take on massive sums of money — but are still well positioned to pump capital into underserved communities.

While that may be the case, Rittner, the Council of Development Finance Agencies' CEO, said there is prevailing concern that the program may impose a bureaucratic burden on nonprofits and financial institutions that don’t have a lot of capacity. If that turns out to be true, he warned it could impact the flow of funds from Washington to the places that need it most.

That seems to be a “huge nervous point” for some, Rittner said. “And it’s probably why coalitions are coming together, because they’re just seeing it as a better way to access capital.”